

UK SUPPORT FOR SMALL FIRMS:
AN EXAMINATION OF BUSINESS
ADVISORS' HEURISTICS.

by

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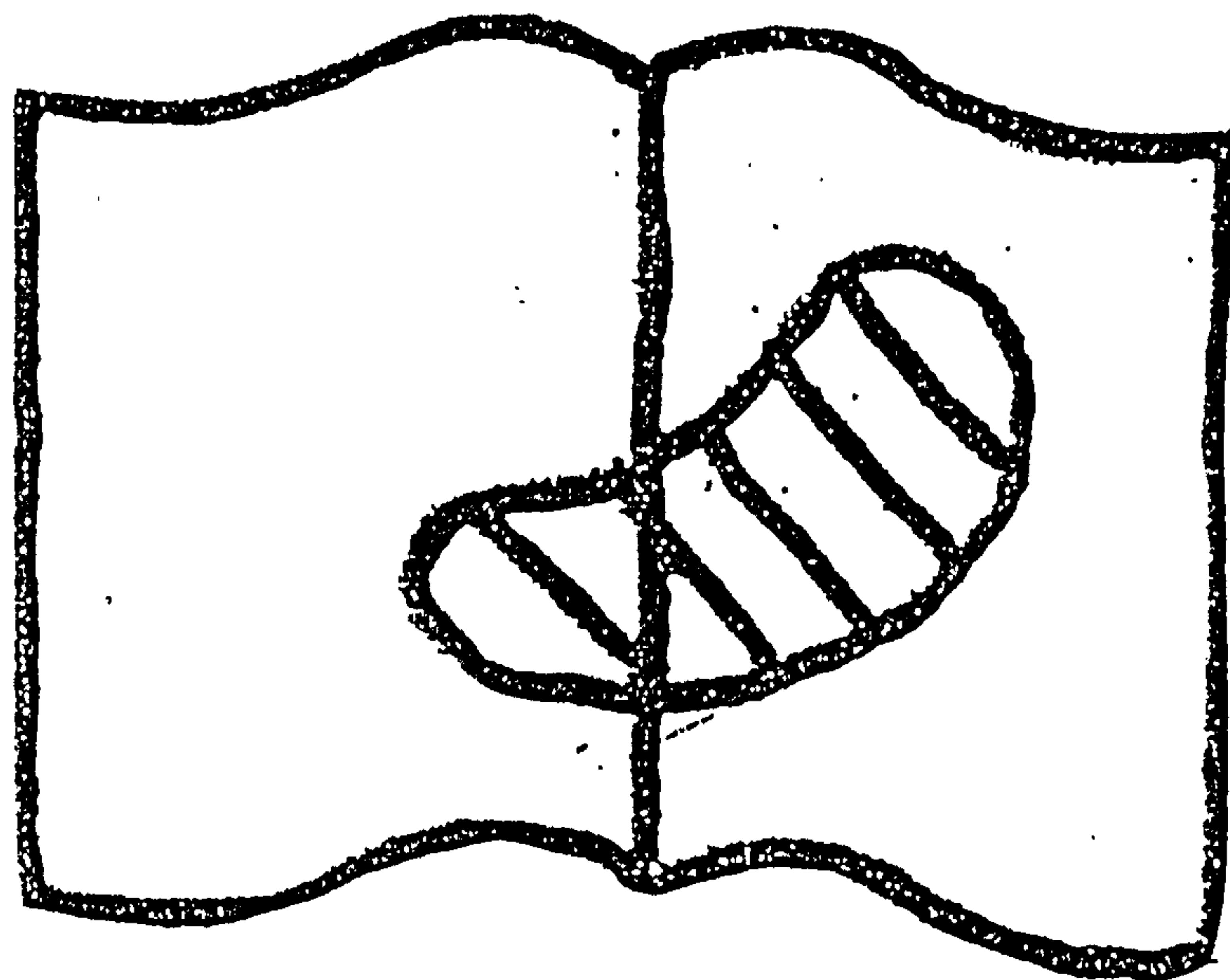
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Abstract

UK SUPPORT FOR SMALL FIRMS:
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This thesis concerns business advice to small and medium sized businesses (SMEs). SMEs account for the overwhelming number of businesses in OECD economies. Consequently, governments have come to see the SME sector as increasingly important to 'national competitiveness' and job creation, and therefore explored measures support the sector.

In the UK, government business support was channelled through the Business Links service, with a remit to support growth businesses. As part of Business Link a personal business advisor (PBA) service was developed to tailor SME assistance to the individual needs of small business, rather than offer a fixed set of programmes. This has required PBAs to be able to identify the needs of individual businesses rather like a general practitioner before referring 'patients' to specialists. These complex assessments require advisors to make heuristic judgements and this research was interested in how they did that.

The research used a qual-quant methodology. Research interviews with business advisors, where business advisors were defined widely to include accountants and bank managers, elicited a set of heuristics developed into a theory of what advisors look for in a well-managed business. This theory informed a survey of 175 PBAs in Business Links in England and Wales.

The research suggests that SME performance is seen as non-sector specific. Good management is indicated by control, both financial and non-financial, with congruent objectives and strategy. Thus PBAs are more concerned to identify and reinforce good management rather than promote a growth orientation.

TABLE OF CONTENTS

CHAPTER 1	1
Introduction	1
1.1 Background to the research	1
1.2 Research Question	2
1.3 Why is this important?	3
1.4 Methodology	4
1.5 Outline	4
1.6 Definitions	5
1.7 Scope of the Research	7
1.8 Conclusion	7
 CHAPTER TWO	 9
Literature Review	9
2.1 The Small Firm Sector	10
2.2 Policy Implications of the Small Firm Sector	27
2.3 Implementation.	36
2.4 Small Firm Success	47
2.5 Firm Growth Theory	52
2.7 Leadership	61
2.8 Identifying Growth Firms	63
2.9 The Resource-based approach to the theory of the firm	64
2.10 Empirical Studies of Small Firm Growth	74
2.11 Much SME research is difficult to use.	83
2.12 Decision-making, Heuristics and Judgement	89
2.13 Financiers, Heuristics and the Small Firm	91
 CHAPTER THREE	 107
Methods	107
3.1 Qualitative Vs Quantitative methods	107
3.2 Pragmatists	113
3.3 Research interview followed by survey: why these methods were chosen	116
3.4 Why other methods were ruled out	118
3.5 Subjects and unit of Analysis	123
3.6 Individual advisors	125
3.7 Protocol of interviews	126
3.8 Description of participants	130
3.9 Limitations of the method	133
3.10 Validity	134

CHAPTER FOUR	140
Findings	140
4.1 Introduction	140
4.2 A practitioner-based, systems model of SMEs	141
4.3 Open and Closed Systems	146
4.4 Error Signals Interpretation	149
4.5 Data for each question presented	152
4.5i visit	154
4.5ii expert	156
4.5iii personality and skills	158
4.5iv innovation	160
4.5v formality	160
4.5vi technology	161
4.5vii marketing	161
4.5viii sector	162
4.5ix culture	163
4.5x organisation	164
4.5xi strengths and weaknesses	164
4.5xii fast growth	165
4.5xiii leadership versus strategy	167
4.5xiv categories	168
4.5xv take-off	169
4.5xvi tidiness	170
4.6 Data that does not fit into question categories	170
4.7 Analysis of the data	172
4.8 Error Signals within Research interviews	179
4.9 Questionnaire	183
4.10 Results from Questionnaire	184
4.10i about you	184
4.10ii your organisation	187
4.10iii your job	190
4.10iv your views about small business	191
 CHAPTER FIVE	 200
Discussion	200
5.1 Introduction	200
5.2 Conclusions about research question	200
5.3 Conclusions about the research problem	214
 CHAPTER SIX	 225
Conclusion and Summary	225
6.1 Introduction	225
6.2 Targeted Support	226
6.3 Management Capability	228

6.4 Implications for theory	232
6.5 Implications for policy and practice	236
6.6 Limitations	247
6.7 Implications for further research	248
APPENDIX I	251
Interview Prompts	251
APPENDIXII	254
Questionnaire	254
How do small business advisors evaluate small firms?	254
<i>Report of Research carried out by Kevin Mole at the University of Wolverhampton.</i>	254
ABOUT YOU	255
YOUR ORGANISATION	256
YOUR JOB	257
YOUR VIEWS ABOUT SMALL BUSINESS	258
CAUSES OF BUSINESS FAILURE	260
FACTORS FOR BUSINESS GROWTH	261
YOUR VIEWS ABOUT MANAGEMENT FUNCTIONS	263
BIBLIOGRAPHY	1

LIST OF FIGURES

<i>Number</i>	<i>Page</i>
Figure 1 A Stochastic Process	18
Figure 2 Ritchie's Taxonomy of Enterprise Cultures	32
Figure 3 Demand and Supply	48
Figure 4 Approaches to Entrepreneurship	57
Figure 5 Competitive Equilibrium with Leadership and Supervision	62
Figure 6 Inductivists models	111
Figure 7 Feedback Loop - Steering the Boat	141
Figure 8 Feedback Loop - Objectives and Strategy	143
Figure 9 Feedback Loop Small Business Control	145
Figure 10 Interests and Small Business Management	146
Figure 11 Open Systems	147
Figure 12 Open and Closed System	148
Figure 13 The Closed System and Error Signals	150
Figure 14 reproduced figure 13	204

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GLOSSARY

PBA. Personal Business Advisors are employed as generalist advisors by Business Links. There is some debate about their role, whether they signpost small and medium sized companies to other advice or provide advice themselves.

Business Link These are one-stop-shops to provide advice to companies with the number of employees between 5 and 250, to facilitate their growth.

SME Small and medium sized businesses: The EU definition was based on the number of employees thus:

1-9 employees describes a micro-enterprise

10-49 employees describes a small business, and

100-249 employees describes a medium sized business.

INTRODUCTION

This thesis concerns business advice to small and medium sized businesses (SMEs). The contribution of the small and medium sized businesses to the economy has been enhanced in importance in the last twenty five years. Governments around the developed world have sought to improve the ability of these small companies to withstand the rigours of competition. Some have used soft loans. Many have come to the conclusion that the SME management is the key to develop the sector. Business advice is one area that has been used to improve the performance of SMEs. This thesis considers the methods by which business advisors assess businesses and decide which piece of advice to give. The task of business advisors might be seen as incredibly complex. Thus, it is expected that advisors attempt to simplify the problem facing them. Advisors assess SMEs using a limited set of heuristics to check the presence of good management. What they consider to be good management is the subject of this thesis.

1.1 Background to the research

The small and medium sized sector accounts for over 97% of all businesses. They do not account for 97% of the GDP of the economy but they do make significant differences to employment and importantly they can make a significant contribution to the development of new technologies (Kaplinsky, 1983; Oakey, 1984; Pavitt, 1984). The ability to generate new businesses in a region may have weighty consequences for the competitiveness of the region. New businesses, however, do not always last for a long time. Indeed, the survival rate is related to the birth rate of new businesses: the more births, the more deaths (Birley, 1986). The most successful new industries exhibit a great deal of 'churning'. Birch (1979) argued that the new jobs created in the US economy in the 1970's were overwhelmingly created in the SME sector. His research methodology has been questioned since, yet the results have been vindicated. In a separate but related theme Hannah (1996) reported research 'Are tall trees different?' suggesting that large firms in the UK have outperformed both US and German large firms. But the UK's economy as a whole underperformed, in particular, the German economy. One conclusion from this could be that the performance of SMEs in a region and country determines the

prosperity of that region - the famed performance of the Mittelstand in the German economic miracle is an example.

One of the central questions in SME research is to explain why it is that some new firms fail, others succeed, and very few succeed brilliantly. Thus there are studies that aim to establish firms with high growth potential. Studies to explain the factors associated with the growth of businesses (Storey, 1994). Another strand has been to consider the environment within which firms are more successful (Kalleberg and Leicht, 1991).

While these studies have been able to identify some of the factors associated with new firm success, they use a variety of definitions of the small firm, and at the heart of research into SMEs there is a void where the central theory should be (Cooper, 1995).

1.2 Research Question

Given all the difficulties involved in predicting new firm performance, pity the poor bank manager. The Bank managers' and business advisors' task is to take a limited set of information and use it to make judgements about whether to support a business, or how to assist in improving its performance. The key word in the previous sentence is judgement. Advisors of all types are forced to make judgements about the performance of the SME. Economists suggest that you cannot pick winners, Milner (1988) puts it thus: *Governments should be encouraged to remedy known sources of "market failure", rather than predict future events*' (1988:76). Advisors and investing community are required to do just that, however. It is an inexact science. This research aims to uncover the processes and methods by which advisors go about their task. Making assessments about the performance, strengths and weaknesses of SMEs requires judgement. Casson (1992) defines judgement as decision-making in situations that are 'complex, novel and ambiguous'. These situations are uncertain rather than risky, risky decisions are those for which one can assign objective probabilities. Having assessed one's risk profile the economic actor can make a decision. However, when the situation is ambiguous the economic actor must assign their own subjective probabilities. Tversky and Kahneman (1974) show that *people rely on a set of heuristic principles which reduce the complex tasks of assessing probabilities and predicting values to simpler judgmental operations*' (reprinted in Kahneman, Slovic, and Tversky, 1982) Advisors are likely to use heuristic processes. This research aims to uncover these heuristics.

1.3 Why is this important?

The first reason that this is important is that it will give many clues about the effect of business advice on the recipients. There seems to be an assumption that business advisors incorporate academic information and models about factors considered important for SME performance and then somehow deliver them to firms. They may not do this. In fact, it may be that the academic models are less important for advisors than business experience, or accountancy, or received wisdom.

Many business advisors, if not the majority, have business experience. Storey suggested as such in his 1993 paper: *'Should we abandon support to business start-ups'* in which he gave advice on recruitment for the nascent personal business advisors, (PBAs). With this business experience, advisors will bring views and thoughts about how business should be done and these might be extremely useful or they might not. Advisors can bring the knowledge of experience of running a successful business; perhaps they have experienced cash-flow difficulties or gone through a recession. These views, or rules-of thumb, that advisors may bring to their role are the subject of this thesis.

Secondly, the methods by which advisors learn and utilise information about SME performance may be useful to enable academics to develop research for advisors in a form that is easily used - user friendly academic research. If academic models are not to be utilised, and are not useful then the 'language' might need to be changed to create effective communication. For example, we know that exporting SMEs are among the more successful, this is fine as far as academic research goes but for business advisors it lacks usefulness. Unless the performance of the enterprise is successful they are unlikely to suggest exporting.

Thirdly, the UK government has charged Business Links to be the delivery system for small business advice in the UK. Their remit is to help SMEs with the capacity to grow and realise that potential. However, there are different ways in which the Business Links have tried to accept this challenge. This research is intended to contribute to that debate surrounding the promotion of SMEs.

Fourth, the research attempts to build some theory about the model of good management within SMEs held by PBAs and business advisors. In uncovering this model the research will show how it is that PBAs attempt to improve the performance of SMEs. This may provide a

model that, in future, can provide a set of hypotheses for evaluation research, to examine the effectiveness of this model and PBA advice.

1.4 Methodology

The methodology used in the research is a combination of both qualitative research methods and quantitative research methods. The thesis is not testing hypotheses derived from previous research. The literature review's role is to show how the existing literature shows the importance of the research question, and illustrates an approach based on decision-making under conditions of uncertainty and bounded rationality. Thus to derive a model of how business advisors assess the performance of SMEs, we need a theory-building section. Therefore a series of qualitative research interviews with business advisors made up the first element of the research. These semi-structured interviews were with accountants, bank managers, Business Link personal business advisors (PBA) and other advisors. The definition of business advisor is discussed in a later section of this introduction. The thirty interviews, including a group interview with ten PBAs, were transcribed and coded. Each piece of information concerning how advisors looked at SMEs had its own code. After these codes were discovered the research then clustered these codes into the themes that emerged from the data. In turn a model of the internal performance of the SME is based on these themes. Having derived a model from the qualitative approach; the research considered methods to validate this model. The questionnaire developed the themes contained in the model to test its validity. This self-administered questionnaire was sent to PBA managers for all the Business Links in England and Wales. Five of the Business Links refused to take part. PBAs returned 175 filled in questionnaires- a response rate of 25%. The response rate might have been a problem if there was a high degree of disagreement amongst the respondents. In the main, however, the responses agreed. Thus the questionnaire responses could falsify our model of heuristics involved with SME performance. This evidence is used to support the conclusion of the qualitative section of the study.

1.5 Outline

The thesis is divided into six sections. In the first the introduction provides an overview of the thesis. The overview presents the subject and reports the research question, methods, definitions and scope.

The second section is the literature review. This section considers the previous research concerning the performance of SMEs. It divides into the three themes identified by Storey (1994), but also incorporates some elements of entrepreneurship research. The section sketches theories of the firm because these theories are the basis by which one can create a model of SME performance, particularly the growth theories of the firm. A further section of the literature review considers the decision-making under uncertainty. This element is important for the discussion of assessments of SME performance.

The third section, methodology, considers the various alternatives that could be used to illuminate the research question. This justifies the methods used, the data analysis and argues that the research is well-founded.

The findings section is a large proportion of the thesis, which divides into two elements. Firstly, this considers the results from the research interviews. It therefore, presents the model that the following section validates. Secondly, the findings considers the responses to the semi-structured questions right through to the questionnaire responses.

The final section is the conclusion to the research. In this section is the discussion of the findings. It presents conclusions about the research question and research problem. The sixth section summarises and considers the thesis' contribution to knowledge.

The structure of the thesis is quite traditional, although the research methodology might not be so traditional.

1.6 Definitions

There are a number of definitions that need to be made. Firstly the definition of small and medium sized enterprise is often dealt with in a different manner from research to research. Whilst conducting the research the European Union definitions have been used and cited when and if the respondents asked the researcher to define SME. Thus the definition concentrates on the number of full-time equivalent employees of the firm:

- 1-9 employees describes a micro-enterprise
- 10-49 employees describes a small business, and

- 100-249 employees describes a medium sized business.

Having said that, the respondents usually replied with their definition and, given the research attempted to use their experience, their definition was the most important. In practice the research concentrated on the small businesses as defined by the EU definitions above, but for example the banks often used turnover definition and the PBAs used the definitions of their remit, that is 5-250 employees. There were occasions when it was pretty obvious that the participant's views described their experience with micro-enterprises. Indeed, qualitative research is predicated on the ontological argument that: *'reality is constructed by individuals involved in the research situation. Thus, multiple realities exist, such as the realities of the researcher, those of the individuals being investigated, and those of a reader or audience interpreting a study'* (Creswell, 1988: 76). Further, given that the interviews were engaging with the participant's experience, if their experience was with micro-enterprises that was going to be the experience that one would tap. Interview participants did discuss their definitions of SMEs and it is necessary to recognise differences in firm size of interviewees' experience.

Besides the definition of SMEs, the definition of what constitutes a business advisor is necessary. The starting point for this discussion is a piece of research for Shropshire TEC (Worrall, 1996). In this research the owners of small businesses were asked where they obtained their business advice. The top answer to this question was from their accountant; this was followed by their bank manager. This may have come as some surprise. The personal business advisors (PBAs) from Business Link were well down the list. Therefore, the research defined business advisor in a wide manner. Hence the list of research interviewees in section three varies from accountants, bank managers and PBAs to Princes Youth Business Trust co-ordinators and a venture capitalist from 3i.

The definition of entrepreneurship, which plagues this research area, has not been attempted, though literature from the research is used. There are other terms involved in the research such as strategy, leadership and control that are difficult to define. Some loose definitions are mentioned here. Leadership of the firm concerns motivation, vision and the objectives for their businesses by the owner-managers. Strategy puts the objectives into fruition and concerns the competitive environment surrounding the firm. Control is to do with the knowledge and management of resources, particularly cash. Culture is to do with the methods used by the firm and its ambience. However, it must be stressed that these definitions are loose. In conversation

with practitioners the experience has been that however you like to define a concept the interviewee carries on using their definition. For the most part this is not insurmountable but readers need to be aware of this.

1.7 Scope of the Research

The scope of the research is to consider the methods and processes by which those charged with providing business advice go about their task. The questionnaire provides evidence concerning the way in which Business Link personal business advisors advise small and medium sized companies. The research builds upon the assumption that to assess and advise an institution one needs a rudimentary, or sophisticated, model of how that institution works (Beer, 1979). Hence this research suggests a model used by the business advisors and validates this model on a population of PBAs from Business Links. Therefore, the model has not been validated across a wider group of business advisors. Although the initial group of advisors included a wider group.

The research has not concerned itself with the owner-managers or managing directors of SMEs. The question of whether the owner-manager recognise this model as (a) useful or (b) one used by the PBAs that they have come into contact with, is beyond the scope of the research. Also beyond the scope of the research is the matter of the efficacy of the model. The model describes the exemplar held by PBAs. The research does not examine whether the PBAs is a 'correct' view of good management within SMEs. That will have to wait for further research.

1.8 Conclusion

The thesis concludes with an explanation of the model of good management within SMEs held by PBAs. The conclusion is that the PBAs are concerned with three areas of good management: leadership, strategy and control. The first thing that the PBAs like to establish, given that the firm is not teetering on the brink of bankruptcy, which is sometimes the case, is that there is adequate control exercised within the company. By control one means that the cash position is managed, that there is timely and useful management accounting available to the company, stocks are controlled and the shop floor is not a picture of chaos. Having established that company control is in place the PBAs then look towards the coherence between the vision and objectives that the owner-manager has for the company and the competitive approach. These issues are probed through a fairly unstructured conversational approach where the PBA.

attempts to establish rapport while encouraging the owner-manager to talk at length about his or her company. The conversations tend to elucidate error signals, both positive and negative, about the state of the management of the SME. Advisors expect that SME performance will follow the capability of the management

LITERATURE REVIEW

In terms of sheer numbers, small firms dominate the market economy. Yet large firms dominate international trade; and hence, it might be thought, international competitiveness. However, the evidence shows that small firms make a valuable contribution to international competitiveness and, in particular, employment (Birch, 1979; Hannah, 1996). In support of employment creation, UK Government intervention to support new business has been rationalised within Business Links where Personal Business Advisors (PBAs) assist companies with the potential for growth. This literature review reveals the thinking behind the shift of UK small business support policy enshrined in Business Link's *modus operandi*, and considers the issues with which Business Links grapple, as they deliver the government's interventions that attempt to augment small firms' contribution to the economy. This section reviews the research base from which government interventions can draw.

Historically the UK's small firm sector has been less important than in other developed nations such as Germany and Japan (Deakins, 1996). The job creating potential of the sector has received more attention in the 1980's and 1990's. Yet most new firms will never employ more than twenty people, and researchers expect a small number of high growth new firms to provide the bulk of the employment growth in the sector. Moreover, the growth in new firm business start-ups and the importance of the SME sector has been accompanied by high death rates. Highly volatile small firms may benefit the pool of small firms and local competitiveness; but many fail and the social costs of failure may be high. In addition the quality of the jobs created in small firms can be variable, many are low-skilled, low-paid jobs (Deakins, 1996). Deakins argues, however, that the emphasis should shift not from new firms to established firms; but to increased quality of small businesses (Deakins, 1996)

The review divides into sections. The first looks at the small firm sector of the economy. What are the attributes of the small firm sector of the economy? It considers the definitions of SMEs and the statistics about births, growth and employment creation. Second, from the discussion of the small firm sector, the review turns to the policy implications. Policy has shifted from blanket

support to new business start-ups and toward support for established SMEs. Third, from that policy change it turns to measurements of success. What constitutes success for the small firm? And what constitutes success for those observing the small firm? Fourth, given that the dti charges advisors to help the small firm with growth potential, what theory is available to guide practitioners? The review considers economic theories of the firm to guide those acting as advisors. There are also other themes in the literature including entrepreneurship, that concentrates more on the individual firm owner. These are considered also. Fifth, many empirical studies attempt to explain the success of the growing SME. Storey (1994) suggested that the SME's performance is dictated by a combination of manager, firm and strategy, this structure lends itself to a further presentation of literature. This section reports empirical studies from, mostly quantitative analyses, though some believe that this research is difficult to use in practice. Sixth, Given the complexity of small business management this section considers how decision-makers use heuristics. These short-cuts simplify complex tasks into 'bite sized' chunks of easily digestible data to make the problem of SME assessment tractable. Seven, finally the review considers research on heuristics used by bank managers and private small investors who are in a somewhat analogous position to that of business advisors in their diagnostic role. The review considers what constitutes SME success; what models of both firms and entrepreneurial behaviour are available and how decision-makers judge the success or potential of a small firm.

2.1 The Small Firm Sector

What is a small firm? The UK's Bolton Report suggested that one definition of a small firm was inappropriate and those employee definitions, such as that of the European Union, should be augmented by a turnover definition, and a definition based upon characteristics. Turnover definitions are often used by banks as they reveal risk exposure, since banks are concerned directly with finance not jobs. The difficulty with the turnover definition is that, with time and inflation within an economy; turnovers expand and definitions date. Consequently, turnover definitions are seen less often in academic research, although they are used by banks. The characteristics definition argues that small firms: have a small share of the market, are managed by owners or part-owners in a personalised way and operate independently. Definitions of characteristics are not often used in research but are implicit in research samples, or are used to construct the rationale for the sample. Thus for example, Kingston's study considered a small firm to be what a small firm owner would consider to be a small firm (Curran, Blackburn and Woods, 1992). Deakins (1996) argues that the EU definitions are too broad. They capture 99%

of all firms. Indeed firms with fewer than 20 employees account for 98% of all firms. In statistical research one or two medium sized companies can lead to distortion in the data and thus errors within the results of a study. This is much more a problem for survey research into small firms than it is for qualitative research. Nonetheless, EU definitions, based on employment are widespread and often quoted. They are:

Micro-enterprise = between 0-9 employees

Small business = between 10-49 employees; and

Medium sized company = between 100-249 employees.

These definitions are covered in the term small and medium sized enterprises (SMEs). The use of employees as a definition of small business appears widespread. The ESRC funding programme reported in Storey (1994) used employment as the main defining variable. Having defined small firms, largely in terms of employees; the next section concentrates on the characteristics of the small firm sector.

It is important to note some of the characteristics of the small firm sector, notably its uncertainty and the precarious existence of many small firms. Table 1 considers the turnover levels for small firms in 1989. It shows that around one-in-three small firms have turnovers of less than £15000 p.a. These firms are merely surviving.

Table 1 Small Firm Turnover 1989

Turnover £000s	No. Firms	Percentage	Cumulative percentage
0-14	1046	35	35
15-49	939	31.4	66.4
50-99	345	11.6	78
100-249	339	11.3	89.3

Source: Deakins (1996)

The next tranche of turnover in the table is the under £49 000, and the cumulative column shows that almost two-in-three small firms were turning over under £50,000 p.a. And that is not all, the degree of churning is high for the small firm too. Table 2 reports firm births and deaths

for the period 1987-89, split into services and production and manufacturing. The high birth rates of small firms are associated with high death rates too.

Table 2 Firm Births and Deaths for the Period 1987-89

Employees in the Firm	Services		Production and Manufacturing	
	Births (000s)	Deaths (000s)	Births (000s)	Deaths (000s)
1-4	240	166	82	62
5-9	139	133	78	84
10-19	76	101	65	95
20-49	28	45	28	55

Source; Deakins (1996)

This table demonstrates the high death rates amongst the smallest businesses. Although the numbers of net firms employing between 1-4 people are increasing, there are many going out of business. The numbers of new firm births and deaths decrease rapidly with the increase in firm size; though note the negative net figures for the 20-49 employee size band. In her study of an American region Birley (1986) showed that the high rate of growth in transport and business services and net growth in these sectors was accompanied by high rates of firm deaths. High death rates are not necessarily bad as far as the economy is concerned; they are, however, miserable for the individual owners, many of whom invested their savings as equity in the business (Deakins, 1996). Small firms inhabit a turbulent environment.

The start-up rates ignore the quality of businesses. The high start-up rates may not represent quality businesses. Deakins (1996) argues that policy makers are far too concerned with the numbers of start-ups and ignore the quality of businesses, though this may change as the emphasis changes towards fast growth firms.

Westhead and Birley (1994) show that VAT de-registrations are higher in older industrial areas. Conurbation's lost jobs even throughout the 1987-90 boom period in the UK. Keeble and Walker (1993) demonstrate significant regional variations in new business formation and growth of small businesses within the UK. New firm formation is higher in the south-east, south-west and East-Midlands than in the North, Scotland and Northern Ireland. Significant reasons for firm formation and growth are local population growth, capital availability (house prices) and professional and managerial expertise. They found the effect of enterprise agency support was to reduce the death rates of firms. The role of home ownership to finance firms is important.

Home ownership can reduce the liquidity constraints surrounding a firm and it influences the propensity to enter entrepreneurship (Evans and Jovanovic, 1989; Batstone and Mansfield, 1992)

Evidence from the US suggests that firms that generate jobs improve their chances of survival, shown in table 3

Table 3 Age of Business, Jobs Created and Improved Chances of Survival

Age of Business	No jobs created	Improved chances of survival by those firms that create jobs relative to those that do not.
up to 2 years	1	20%
4	1	40%
4 years	2-4	80%
6 with 10 or more employees	10+	near 100% chance to survive the next four years

Source: Phillips and Kirchoff (1988)

This table compares business age and jobs created with improved chances of survival from those firms that do not create jobs. Firms that create one or more job in their first years of trading, therefore, have better chances of survival, and those that create the most jobs have the best chance to survive. Thus employment growth and firm survival are correlated. The correlation might indicate that job generation causes survival, it may, however, be that both job creation and survival are associated with other factors, such as management ability. Could, therefore policy support to three or four years old businesses concentrate resources on those more likely to survive and prosper?. This is the subject that has exercised policy makers and academics from the late eighties to the early nineties.

If the small firm sector is turbulent, it is making something of a comeback. Using employment as a defining variable SMEs have become more important since the nineteen-seventies. In the UK the key increase has been in the number of, and proportion of employment in, micro-enterprises.

Table 4 Micro-enterprises: Firms, Share of Firms and share of Employment 1979-1989

	1979	1986	1989
No. Firms	1597	2308	2802
micro-enterprises as % total firms	91.6	93	93.8
micro-enterprises % total employment	19.2	27.8	28.6

Source: Deakins (1996)

The perceived relative importance of small firms to the economy has changed over the post-war years. In 1971, the Bolton Committee investigated the declining number of small firms in the UK, as large firms crowded out small firms and industrial concentration increased. Large firms in the UK out-completed small firms. As recently as 1981 Aaronovitch et al reported *'Between the thirties and 1968 the hundredth largest firms increased their share of net output from 23 to 41 per cent, but the proportion accounted for by the 100 largest plants (11 per cent) was still the same'* (1981: 263). Yet by the late seventies, researchers reported that small firms were making a comeback. Research by Birch (1979) however, using Dun and Bradstreet data showed small firms created two-thirds of new jobs, across all sectors of the US economy, between 1969 and 1976. Birch's work influenced policy-makers just as incoming Conservative governments sympathetic to small firms came into power in the UK and US.

Despite its influence, Birch's works attracted criticism on methodological grounds. First, his data was collected for the purposes of credit rating not research, and covered both firms and establishments. The existence of multi-plant large firms means that some jobs attributed to small firms were created in a small plant that was part of a large firm, precisely the point made by Aaronovitch. Criticisms also focus on Birch's dependent variable net job change. Net job change in manufacturing in the US between 1969 and 1976 was negative; as large firms shed labour. Critics argue that rather than measuring the success of small firms; Birch measured the failure of large firms. However, Birch's research provoked subsequent work by the US Small Business Administration. It found firms with twenty workers or less comprised 19.4 per cent of US employment but created 37 per cent of new jobs (reported in Storey 1994). Although Birch's evidence may represent failure for large firms as much as success for small firms, might be historically specific to this period, and might be methodologically flawed; it showed nonetheless that in the 1970's small firms created more than their share of new jobs in the US economy.

Moreover, small firms might be important in international competition. Hannah (1996) studied large firms in the UK, US and Germany and found large firms in the UK outperformed their US and German counterparts; yet Britain's growth rate was worse. *The Economist* noted 'Mr Hannah argues that differences in the performance of small and mid-sized firms may have a bigger effect on growth.' (*The Economist* 2/11/96 p122). SMEs play a pivotal role in economic development creating jobs and growth.

Though the studies by Birch suggested that small firms were job generators in the US, UK estimates for a slightly earlier period found that only 0.8% of the growth in manufacturing output was attributable to firms employing less than 25 people in the period 1968-1975 (Fothergill and Gudgin, 1979). This could be due to newer technologies taking hold later than the early seventies. A study in the late eighties found that small firms were as important as large firms (Daly et al., 1991). These studies are based on VAT registration data. Daly's net fertility index does reveal the fertility of the 1-4 firm size in the period that his study covers, see table 5. Net fertility is defined as the share of net job gain/ share of overall employment. Again this is divided into production and service sectors.

Table 5 Daly's Net Fertility Index (1987-89)

Firm Size (employees)	Service Sector	Production
1-4	2.7	6.3
5-9	1.0	2.1
10-19	0.4	1.0
20-49	0.8	0.8
50-99	0.9	1.1
100-499	0.9	0.8
500-999	1.1	1.6
1000-4999	0.8	0.2
5000-9999	0.3	0.3
10000+	0.7	0.4

Source: Employment Gazette (August, 1992)

Although, Daly's fertility index shows small firms that employ 1-4 people as the most fertile, longer research projects suggest the distribution is less equal. Storey et al (1987) report employment in ten years old surviving start-up firms in Northern England, shown in table 6. The firms started at anytime between 1965 and 1978. Table 6 shows 774 firms, over half employed less than ten employees. Just 1 per cent employed over 100 workers and 6 per cent

of the start-ups, supported 33.8 per cent of the jobs (Storey et al, 1987 reported in Storey 1994). Thus one-in-a-hundred start-ups will become a medium sized firm ten years later.

Table 6 Employment in surviving openings of wholly new manufacturing firms in northern England 1965-78

Employment size in 1978	Number of Firms	Percentage of Survivors	Total Employment	Arithmetic mean Employment	% Total Employment in Size Group
1-9	429	55.4	1862	4.3	15.7
10-24	217	28.1	3297	15.2	27.8
25-49	81	10.5	2693	33.2	22.7
50-99	39	5	2629	67.4	22.2
100+	8	1	1376	172	11.6
Total	774	100	11587	14.9	100

Source: Storey (1994)

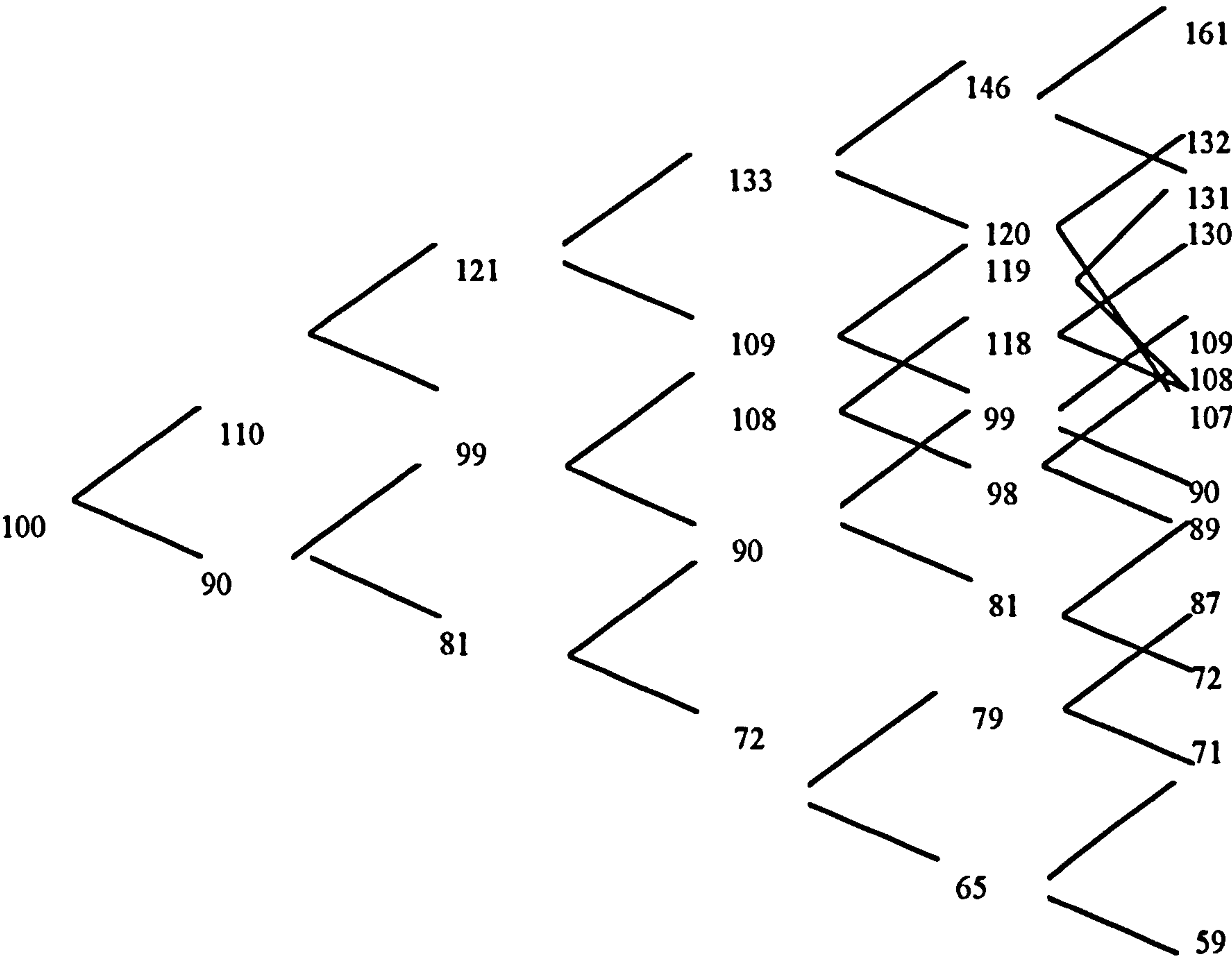
Other research concurs. Recent data from Northern Ireland manufacturing businesses showed 9.5 per cent of firms created 43 per cent of the subsequent employment (NIERC, 1988). Storeys constructs a model of employment in small firms with similar distributions and mean employment as table 6 demonstrating the top four per cent produce half the jobs. However, he assumed a 40 per cent survival rate, which is sensitive. VAT registrations show the survival rate to be more like 30 per cent. (Ganguly, 1995) A firm start-up in 1989 has a one-in-three chance of still trading today. I re-calculated the table using a 33 per cent survival rate and found the result that the top 4 per cent of firms creates 37 per cent of the employment generated. Nonetheless, a few firms create most employment growth in the SME sector.

In a similar vein, Smallbone, North and Leigh (1993) advocate government business support for mature SMEs. They examined the extent to which firms turned to outside help. They sample consisted of 306 ten year old manufacturing companies, in three locations, that employed less than 100 people. External assistance included both formal and informal contacts, although the paper reported only specific examples of help. They found that nearly half the firms used no outside assistance. The most common form of external assistance involved paid consultants, generally used by larger and better performing firms. Rural firms were most likely to use external assistance, two-thirds having done so, showing the success of the rural development commission. Business planning and design and product development were the most common types of consultancy demanded by the small firms, with design and product development

clustered in London based electronics and instrument firms. Design and product development, where a consultant addresses a specific issue, attracted a high level of satisfaction. Generally satisfaction with consultancy was high but the researchers found that business planning consultancy was more difficult to deliver to the client's satisfaction. Smallbone et al. found 37% of their panel more than doubled their turnover in the 10 years of their study. These firms created more than four in every five new jobs created by the firms in the panel. Again in mature SMEs the pattern of few firms creating most jobs is evident. Smallbone et al. say policy should target two types of mature SMEs. First, firms that want to grow but do not (27% of their sample) second, fast growing firms that need support because they have yet to achieve a size big enough to survive a recession (turnover = £0.5m) or because growth has been at the expense of profitability. The government's Enterprise Initiative shifts support to established businesses (Stanworth and Gray, 1991). The scheme seems to have increased the use of consultants by SMEs although subsidised firms implemented fewer consultants' recommendations (Smallbone et al., 1993). Mature SMEs can, with government support, increase their growth and create many new jobs.

One powerful argument against the idea of targeting, 'picking winners' is that the distribution of employment creation, though very uneven, may be random. The stochastic process, shown in figure 1, models this. In this figure all positions have a fifty-fifty chance of a 10 per cent increase or decrease in firm sales. Assume the process starts with all firms at the same point which for the sake of simplicity call 100.

Figure 1 A Stochastic Process



After the sixth time the process occurs, six iterations, one firm has grown by over 60 per cent, four firms by over 30 per cent, and five firms by 10 per cent, similar to the outcomes seen in the study of Northern English firms from 1965-78. But each firm at each point in the process has an even chance of growth or contraction. In this stochastic process you cannot pick which firm will 'win' and which will 'lose'. It is possible to identify firms that do very well, in hindsight, but that is not the same as being able to pick winners. Economists have shied away from picking winners, particularly by government departments. The consensus amongst economists at present is that specific intervention by government to support industries fails to realise net economic gains.

Caves (1998) reports empirical evidence regarding the growth of firms. He suggests that firms can have consistent growth. Geroski, Machin and Walters (1997) in a study of large UK firms, estimated positive regression coefficients of one year's growth on the last three previous years growth rates, but observed a negative correlation with the previous year. Baldwin (1995) in a survey of Canadian manufacturing firms divided them into gainers and losers. The average continuing firm increased employment by 1.5% but the average gainer increased employment by 7.8% and the average loser reduced employment by 6.3%. Caves (1998) notes:

Negative year-to-year autocorrelation appears in the typical firm's employment changes around any long term trend, shown by comparing average rates of growth for firms that expanded employment in a given year to annualized growth rates for those that expanded cumulatively over longer periods (Caves, 1998, p1950).

Growth then appears as a non-random event for a firm.

However, a second critique of this policy shift uses models of natural selection. Hannan and Freeman (1989) found that population dynamics explain the births and deaths of firms better than studies of managerial strategies. They studied the births and deaths of unions over one hundred years, the size of organisations in the semiconductor industry from world war II to the late eighties, births and deaths of San Francisco newspapers over one hundred years and the changing pattern of specialist and generalist local restaurants in part of the US (quoted in Peters, 1992). Hannan and Freeman say:

Most of the variability in core structures of organisation [functional versus divisional versus matrix forms for example] comes about through the creation of new organisations and...the demise of older ones. Existing organisations, especially the largest and most powerful rarely change strategy and structure quickly enough to keep in touch with...uncertain, changing environments (1992. p616).

They also note: *most writing and research on organisations concentrates on the largest and most successful. This is almost always a mistake if one wants to learn about the processes which result in success and failure.* (1992, 618)

Hannan and Freeman use natural selection models from ecological theory. The example of US retailers Wal-Mart and Sears illustrates their arguments. Wal-Mart formed in Arkansas in the mid-1960's. It follows a number of business practices (it spontaneously appears in the natural selection jargon), which have become the accepted 'way of doing things' within Wal-Mart. Ten years pass and then the environment changes. Wal-Mart starts to grow very quickly and Sears, the dominant player in the market, has problems. Wal-Mart's strategy suddenly starts to work very well once the environment changed; Sears and older-type retailers may expire. Thus companies have strategies and if the environment is favourable they grow. They may become major players, the environment changes again and another new upstart knocks them off their peg. Schumpeter's cycle of creative destruction is not dissimilar.

The average start-up is likely to fail, but these start-ups maybe important because '*selection processes can only work on the available diversity*'. The companies have to spontaneously appear to enter the selection process. Natural selection reinforces the more adapted firms from the available diversity, but this is better, not perfectly, adapted. If diversity is small perhaps the 'Australia solution' occurs where governments protect firms because they are uncompetitive internationally. Hannan and Freeman are part of a powerful counter-argument to the picking winners' hypothesis. Does a change in the environment ever induce a response? Do changes of the environment induce spontaneous appearances somehow?

The properties of organisations reflect the conditions surrounding their foundation. British oil company BP has always been good at finding oil reserves. Shell's forte is marketing, still today the firm reflects its history and core properties. Where different organisational forms exist in an industry it is due to the companies being formed in different eras; thus IBM, Apple, Microsoft and Netscape are all in computing but formed in different periods.

Hannan and Freeman say: we reject the view that the diversity of organisational structures at any time reflects only recent adaptations of organisations, in favour of the view that diversity reflects a long history of foundings and displacements of organisations with fairly unchanging structures. (1992, 620). Indeed, firstly organisations do not change easily because they institutionalise

themselves and their procedures and secondly, they ought not to change easily since selection favours organisations have a very distinctive competence. The firm has to execute its strategy and hope to be selected: 'We argue that organisational selection processes favour organisations with relatively inertial structures, that cannot change strategy and structure so quickly as their environment can change.' (1992, 621)

Thus a corporate culture, widely shared values and a firm x way of doing things are necessary for success but once successful inertia sets in. There is little to do say Hannan and Freeman

High levels of inertia may produce serious mismatches between organisational outcomes and the intentions of members [i.e. efforts to change strategy] in a changing environment. On the other hand organisations that try to [fight back and] re-organise frequently may produce very little and have slight chances of survival. The worst of all possible worlds is to change structure continually only to find each time upon re-organisation that the environment has already shifted to some new configuration that demands yet a different structure. (1992, 621)

There are two different biological strategies, the r and the K, to carry on the ecological metaphor. Given that natural selection explains the processes it is reasonable to suppose the biological methods to ensure survival of the species are germane to the survival of the firm. The r strategy releases large numbers of offspring each with a low level of energy and with a poor survival record. Under the right conditions the numbers of these offspring can grow rapidly (Like flies, mosquitoes). Hannan and Freeman say this strategy maximises '*..the speed of growth in open environments.*' (1992, 623)

The K strategy, followed by humans and whales, has a small number of offspring with a great deal of energy going into each. The single offspring has a good chance of survival, unlike in the r strategy, and the population expands even under competitive conditions. The K strategy is able to withstand rivals but is slow to change. Slow environmental change, for example during the 1950s, favours K strategies. Fast environmental change favours r strategies. The r strategy firms are not more adaptable, the strategy works because there are enough new firms to offset the failure rate. According to Hannan and Freeman: '*our proposition that easy-to-build organisations*

proliferate in modern society [is] an argument that the character of [modern society's] environmental variations...favours the [r strategy]' (1992, 621).

In an especially volatile environment the flexible firm, if that is not a contradiction, which is a collection of small firms will have an advantage over the K strategy firm (Boeing or IBM). However, the ability to respond quickly may be in competition with the ability to perform reliably as in the K strategy. Technology may be important.

One might note the parallel between the discussion of strategy and the proposals to target resources at growth firms, which suggests a K strategy and those who believe in policies to increase the total number of new firm formation r strategy. Thus one might conjecture that the support for a small number of growing businesses would be more successful in a slow changing environment whilst the new firm support would help in fast changing environments. Given new innovative areas are usually fast changing, a discussion of biological strategies and small firm support might be fruitful for government agencies.

Peters (1992) thinks the r strategy favours flatter, more organismic organisations, using networks rather than hierarchies, following on from Burns. The similarity to Schumpeter's creative destruction begs the question of whether the environment will continue to favour the r strategy or; provide a framework to benefit the K strategy with a stable international system based on the Euro, Yen and US Dollar.

For Hannan and Freeman then the key for developing the SME sector in a turbulent environment, is to develop new firms and lots of them. In contrast to the ideas of Storey and Smallbone who would favour a K strategy. In a sense the arguments over UK SME support is to switch strategies from r to K. The problem is one of (a) identifying the K's and (b) nurturing them rather than killing them with kindness. Again we return to the issue of how to help fast growing small firms.

There is no agreement about how to measure a fast growth firm -through employment, turnover or the like, though it can be noted that turnover and employment are positively associated theoretically (Allen, 1967). The inherent difficulty is that conditions are unstable, timing may be important. Despite these difficulties researchers have sought to identify fast growth firms, rather than act on the constraints that hold firms back from growth. Thus instead

of looking at the major constraint on growth in SMEs of available finance and looking at ways round this; research has focused on identifying firms with the potential to grow quickly. Deakins notes that there is a difference between those that achieve growth and those that wish to grow. His research with Afro-Caribbean businesses suggests that half wished to grow but faced constraints of a niche market and the socio-economic status of the area. Indeed Reid et al (1993) suggest that the typical micro-enterprise experiences growth at some time or other, in the first three years.

There are a number of suggested reasons for the increase in the number and importance of small firms in this period. Small firms, it is said, can respond more quickly to the pace of technological change. The structure of the economy has changed to favour the small firm. Deakins (1996) posits eight reasons for the increase in small firms:

1. the growth of the service sector where minimum efficient scales are much lower;
2. technical changes favouring small-scale production;
3. the ability of the small firm to react to market opportunities;
4. changes to government policy - the enterprise culture;
5. macro-economic policy - changes to corporation tax, income tax and so on;
6. enterprise agencies;
7. local authorities;
8. high unemployment and high levels of redundancy.

All these changes may have boosted the small firm. The key changes it would seem to me are those involving technological change. Freeman and Perez's (1988) work suggests that technological change can lead to a period of great uncertainty in the economy where the pace of change increases. It would appear that this change to the environment favours small firms in newer industries at the expense of large firms in older sectors of the economy like steel, coal,

manufacturing and even banking and finance (ONS, 1998). The small firm sector has become increasingly important for the UK economy. Yet the sector is not uniformly thriving.

The quality of start-ups brings us onto the role of start-ups. Deakins studied start-ups from an Enterprise Agency. They surveyed 117 firms all under three years old. They found that their constraints for growth were:

- 1. Financial resources
- 2. Competition from other businesses
- 3. Human resources
- 4. Physical resources
- 5. Administrative resources

Given the key constraint were financial resources the researchers examined sources of finance for start-up businesses shown in table 7. The table below shows the mean score for the sources of finance with a score ranging from 0 (no importance) to 5 (very important).

Table 7 Sources of Finance for Start-ups

Source	Mean score (0-5)
Personal savings	3.0
Family and friends	1.43
Bank overdraft	1.31
Personal assets	0.75
Bank loan (secured)	0.62
Bank loan (unsecured)	0.49
Other loan	0.43
Re-mortgage	0.31
Insurance policy	0.25
Local authority	0.13
PYBT	0.11

Source: reported in Deakins (1996) p58

Thus finance comes most often from personal savings followed by money from family and friends. To increase the numbers entering entrepreneurship then policies to increase the savings rate in the economy or locality, like support for credit unions, might be more important than

training. But if finance is available the individual has got to want to own their business. Motives for new business owners are presented in table 8. Note that there is a very low priority given to the wish to lead others.

Table 8 Motivation for Self-employment

Motivation	Mean score
Satisfaction	4.4
Independence	4.1
Financial	3.6
Picking people you work with	3.4
Building an enterprise that can survive	3.0
Status	2.5
Leading others	2.1

Source: Deakins (1996)

Founders of companies believed that their most important skills were planning and controlling, followed by negotiation skills, and those associated with acting as a figurehead (Deakins, 1996). There were four key factors that prevented potential start-ups from going ahead: availability of sufficient finance, confidence, lack of knowledge and lack of support.

Deakins also asked about the personal difficulties that lead to the decision not to go ahead with self-employment. Thus financial commitments and insufficient finance were the key areas that stopped potential self-employment both personal, within the family and for the business. This might reflect a poor quality business proposal. Thus a business that attempted to undercut a highly competitive market, like car valeting for instance, might suffer from anticipated cash flow problems. Their cost of premise may be higher than the business could support. Yet insufficient start-up finance could suggest that there is a lack of equity available to would be entrepreneurs.

Deakins reports more tentative findings related to business failure, again in rank order:

Table 9 Factors preventing business start-ups and causing business failure

Factors preventing start-up	Personal factors preventing start-up	Factors leading to business failure
insufficient start-up finance	financial commitments	lack of knowledge of marketing
anticipated cash flow problems	family commitments	competing family/domestic task demands
change in home circumstances	fear of failure (especially single women)	problems of outlets
cost of business premises	lack of general self-confidence	lack of market awareness of their product/service
unacceptable risk	adequate job satisfaction	cost of business premises
inappropriate location of premises	inadequate support from partner/spouse	inappropriate business premises
competing family/domestic demands	lacking skills for the tasks that they will meet	insufficient mark-up
ignorance of accounting/financial techniques		unacceptable risk
anticipated problems of outlets		change in home circumstances
inappropriate sizes of outlets		inappropriate size of business premises

Source: adapted from Deakins (1996)

One of the interesting things to note is the differences between the market failure, although the sample size makes these findings tentative. There are many studies about business failure (e.g. Hall, 1995). Interesting to note is the increased influence of marketing amongst business failures., something that does not figure in the reasons for not starting up businesses. Insufficient finance has transmuted into insufficient mark-up. Thus instead of the finance being unavailable, business failures could not sustain sufficient profit margins for investment or, presumably, to cover financial commitments. In a study of Canadian small firms Baldwin et al (1997) note that:

...firms fail because they simply do not have the basic management skills and characteristics necessary for success. Firms that survive the first years of life successfully develop core competencies - management and financial expertise - as well as market specific capabilities regarding what to produce, how it is to be produced, and how it will be marketed (Successful Entrants). Bankrupt firms, on the other hand, simply do not develop their core capabilities...Management's lack of ability plays less of a role in failure than lack of knowledge...Lack of control by management is stated by 45% of respondents to have been a major contributor to bankruptcy. This is a result of management inexperience. Control is reported as a causal factor behind bankruptcy in about two-thirds of these [more than ten employees] firms. (1997:24,25)

Daly's data does suggest that the employment effects attributable to small firms are more diffuse than is suggested by Storey (1994). He suggests that half the net job generation came from firms that move from the 1-4 class to the 5-9 group. However, Daly's data is seen as exceptional and it covers only two years.

2.2 Policy Implications of the Small Firm Sector

The small firm sector is turbulent. Small firm's profits and sales fluctuate more widely than larger firms because they are more likely to depend on single products or customers (Storey et al., 1987; Cambridge Small Business Research Centre, 1992). VAT deregistration rates for UK firms demonstrate that ceasing to trade is more prevalent for younger firms than older. Almost one-third of VAT registered businesses cease to trade in the first three years; it takes a further seven years for the next third to cease trading (DoE, 1992). The VAT deregistration rates for UK firms reveals that those with turnovers less than £14000 in 1980 were six times as likely to deregister than those with a turnover of £2m (Ganguly, 1985). Storey (1994) suggests that half the jobs created by new firms are created in just 4% of firms. Other studies confirm the uneven impact of new firms on job creation (Gallagher and Miller, 1991; Smallbone et al., 1992). Thus, small firms fit three categories: short-life firms that trade for less than three years ('turnover firms'); firms which survive without significant growth ('trundlers'); and the under 20% of firms that create a significant number of jobs ('gazelles') (Storey, 1993). Switching public support

resources from increasing the formation rate of new firms to supporting growing businesses can provide more jobs for any given level of support (Storey, 1993).

Audretsch (1995) argues that most small firms fail because firms must achieve the minimum efficient scale within a few years of start-up. A few firms grow to challenge the established firms in an industry and economy. The basis of start-ups for Audretsch is knowledge and innovation. The reason that the number of firms has increased is because the existing tendencies towards routinization (accepted production practices) and industrial concentration have encountered new knowledge and a host of innovative opportunities for new firms. The idea of routinization seems to ignore the wide productivity differences between firms in the same industry, even in the same industry and area (Coase, 1988). Thus the particular times provide the impetus for a shift towards more small firms. Audretsch's examines innovation, he is less concerned with small firms per se. Consequently, he may dismiss Storey's trundler firms as little consequence, little consequence for innovation that is. Audretsch's view supports the Smallbone and Storey thesis but adds a twist.

Moving on from this, Storey (1994) classifies small firms into 'flyers', 'trundlers' and 'failures'. Flyers are fast growth firms, failures are those that go bankrupt and trundlers are surviving firms that grow only slowly, they trundle along. When money for business support is scarce it is tempting to target that money using their resources in the most effective manner. Yet it begs the question of whether one can identify fast growth firms, flyers, reliably. It is tempting to see the existence of a few employment generator firms as proof of the targeting approach. It is not.

In support of his view to concentrate resources on established firms, Storey argued that the UK's high rate of new firm formation led to increased churning rather than employment gains.

'..whatever the UK economy needs, it does not require further incentives to stimulate new firm formation, for two reasons. The first is because our rates are higher than almost all of our competitors, and the second is because the impact which incentives have upon employment creation is negligible, since they primarily lead to 'churning'(more births and more deaths) rather than to net employment gains.' (1993: 22,23).

There were other alternative policies, however. In continental Europe alternative models exist for the provision of business support. In Germany, for example, the local chambers of commerce (IHK) play a central role. The IHK can provide support and training for high technology firms, for example. German chambers, like trade associations are better funded than their British counterparts (Deakins, 1996). Moreover, their political system differs. Their states (lander) within a federal system have more power to implement programmes, whereas in the UK SME support is a matter for national government (de Koning and Snijder, 1992). In the 1980's the UK lacked any devolved regional government although regional government offices existed. The UK policy could have taken a turn towards the strong Chambers of Commerce model that exists in Germany and France. That it did not might be due to the costs of that system, as well as political considerations. Patrick Walker as Secretary of State for Wales during the 1980's appeared to develop a more dirigiste approach but this was seen as an exception.

Thus policy should target growth businesses. Such a growth business policy requires procedures to implement it. First, a commercial database can identify autonomous firms in all sectors who satisfy two criteria; they should be between three and five years old and have at least 20 employees - playing the percentages. The TEC should contact firms to ascertain their future plans and whether they wished to discuss them with the TEC. Many SME managers choose not to belong to the fast growth group. Hakim (1989) found 55 per cent of just under ¾ million of firms had no plans for growth and only 15 per cent were 'actively looking for expansion'. Differences in the growth intent of owner/managers are reflected in the subsequent firm performance (Orser, Hogarth Scott and Wright, 1997) The Cambridge Small Firm Research Centre (1992) found 22.5 per cent of firms wished to grow substantially. Researchers consistently mention four major constraints on growing small firms: finance, premises, labour, owners and management teams (Cambridge Small Business Centre, 1992; Atkinson and Meager, 1992). The policy recognises that constraints for the individual firm differ markedly. Support aims to overcome constraints (Storey, 1993).

The temptation for government agencies, particularly in areas of high unemployment, is to target help at these flyers and better still firms with potential to fly, if you will, 'fledglings'. 'Fledglings', firms that aim to grow but fail to achieve it, accounted for 24% of 140 South London manufacturing firms in a survey conducted by Smallbone et al. (1993). He suggests this is an important target group for Business Link. For government agencies success is synonymous

with fast growth, for SME managers it is not. Different agents in the economy define success differently; academics, PBAs, business people and central government all have different standpoints. Support for targeting growth firms promoted a research agenda to find, ex ante, entrepreneurial firms.

Deakins (1996) argues that support agencies are part of a desire to create an 'enterprise culture'. He suggests that research into the role of enterprise agencies is limited. Enterprise agencies provide a range of business support ranging from business clubs, financial support, clerical services, databases, and additional business services. They were first established in St. Helens in 1978, since when they have grown to number over 300. Yet their growth has been ad-hoc and they have been criticised for their lack of strategic viewpoints and their low profile in the small business community. There are uneven patterns of business support. Above this patchy network, in 1989-91 the government established training and enterprise councils (TECs) and in Scotland LECs. Yet these vary, even though they are supposed to be based on local labour markets with populations of 250 000.

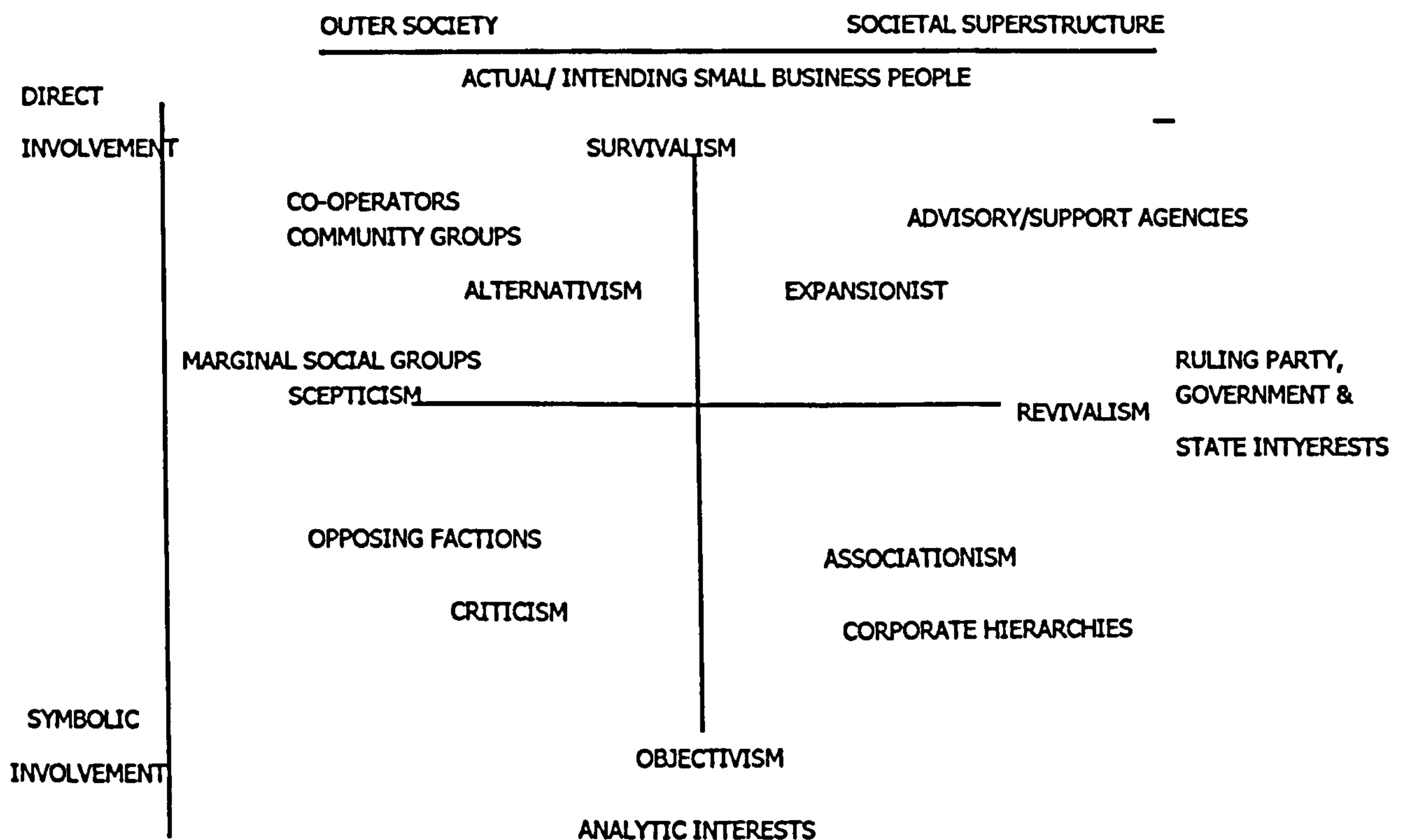
The Enterprise Culture was part of the free market ideology emphasised by the then Conservative British Government. At the same time as the government emphasised the value of small businesses it introduced labour market reforms that effectively undermined trade union power. A de-unionised, de-rigidified labour market developed (Goss, 1991). Wage determination became localised (Dickens, 1988). Burrows (1991) argues that Britain restructured through a complex set of economic, social and political changes, changes that government represented within a new cultural framework - enterprise culture (Harvey, 1989; Thrift, 1989). Enterprise culture emphasised individualism, independence, flexibility, and self-help. Enterprise culture masked a more laissez-faire attitude to industrial policy, and at the same time pointed the way to policy responses towards the restructuring of the British economy.

Given Deakin's view that enterprise agencies are evangelists for enterprise culture. It begs the question, what enterprise culture? John Ritchie (1991) describes a taxonomy of different 'enterprise cultures'. These cultures represent the standpoint of different groups in society towards enterprise culture. Enterprise culture is a political expression of the trend towards smaller firms. Mrs Thatcher's Conservative government in the UK lauded enterprise culture,

associating with it de-regulation and reducing the influence of corporatist institutions such as the CBI and TUC.

Ritchie uses two parameters to classify sub-cultures of the enterprise culture, the degree of involvement with enterprises and the enthusiasm for enterprise culture. The vertical axis describes the degree of involvement. Thus degree of involvement ranges from those running small businesses; to those not directly involved like academics.

Figure 2 Ritchie's Taxonomy of Enterprise Cultures



Source Ritchie (1991)

Ritchie's horizontal axis describes the degree of enthusiasm one has for the idea of enterprise culture, from sceptics to believers. The taxonomy throws up a number of different views of enterprise culture.

Ritchie maps the involvement with enterprise and groups' positions in society, from the ruling government and party to marginalised social groups. The relevance to this section on success is that SME managers may feel that success is surviving whereas for government agencies' success is growth. This has a large impact on the implementation of policy at a local level.

How effective enterprise agencies are is questionable. The role lies in unlocking latent entrepreneurial talent (Deakins, 1996); yet their low profile leaves this perhaps unfulfilled. Casson (1990) believes that interventions to promote business start-ups will not stimulate entrepreneurship. A report for the BITC suggests enterprise agency support creates sustainable business but that the actual difference is difficult to assess. Moore (1988) says that the effect of

enterprise agencies varies from marginal to significant and the Centre for Employment Initiatives (1985) find their effects to be weak. Keeble and Walker (1993) in a study of regional variations in small firm births and deaths found that the existence of enterprise agencies reduced death rates for small firms, and thus contributed to net job growth through saving existing businesses that would otherwise have ceased trading. Deakins (1996) believes that the effectiveness of support is determined by the degree of selectivity, co-ordination and inter-agency collaboration. Yet selective targeting is weak, and inter-agency co-ordination is undeveloped.

North, Blackburn and Curran (1997) suggest government policy to aid small firms has largely failed but that industry training organisations and trade associations could provide a vehicle to deliver business support. Trade associations are a common link between small firms and support providers (MacMillan, Curran and Downing, 1990; Berry-Lound, 1994; Curran and Blackburn, 1994). Trade associations can build up significant areas of expertise, particularly in sector specific information (Boleat, 1996). The UK Government recognised their potential role in its competitiveness agenda (May, McHugh and Taylor, 1995). Besides, owner-managers may prefer to identify themselves with their sector or their *métier*, that is printers or restaurateurs rather than small business owners (Rainnie 1991).

Trade associations vary in their desire to recruit small firms, however. Although they emphasise technical advice to members, trade associations and federations (like the Engineering Employers Federation) have the largest proportion of large companies, with many having less than 100 members and a low specific service orientation. Their primary role is to represent their industry. Besides trade associations many individual SME owners belong to professional associations. Professional associations have a stronger focus to include all businesses and emphasise services. They maybe involved in training provision. Professional associations are more helpful to owner-managers but SMEs are most closely served by associations of owner-managers (Bennett, 1998).

Nevertheless, those small firms who are trade association members were very satisfied with their service. Three-quarters believed that the service was good; fifty-five per cent believed that their membership improved their business performance (North, Blackburn and Curran, 1997). But most small businesses are not members of trade associations (Curran and Blackburn, 1994). Non-members see trade associations as costly, time consuming and irrelevant. Their services are

very sector specific and are not aimed at the lack of general management skills perceived as the key weakness in small firms (North, Blackburn and Curran, 1997).

The way associations interact with the state, their form and orientation influences their capacity to affect individual SMEs and economic development (Sadowski and Jacobi, 1991; Crouch and Traxler, 1995; Unger and van Waarden, 1995). Thus, effective associational development depends on the degree of state organisation and regulation (Streeck, 1991). British business associations have fewer resources and government support than their German counterparts (Lane, 1997; Bennett, 1997). Business associations in the UK are voluntary. Their limited subscription income restricts their staff. Bennett (1998) suggests:

previous theoretical and empirical literature suggests that voluntary associations will always be subject to fragmentation, smallness and inadequate or 'suboptimal' provision. SMEs are the sector that is probably suffering most adversely from these limitations because of their generally less satisfactory representation within associations. Within SMEs, individuals appear to be the best served, while microbusinesses of 2-10 employees appear to be the worst served (Bennett, 1998: 258).

Trade associations have the potential to provide a medium for business support, but have their drawbacks. Many target large firms. Although their services may be excellent, the relations between state and association within Britain reflect the voluntary ethos prevalent within British society, and a more laissez-faire political climate prevailing throughout the period. Besides, many SMEs do not belong to trade associations.

Into this business support melee, Business Links were charged to rationalise small business support into a one-stop-shop: *'from complexity to simplicity'* (Bryson Churchward and Daniels, 1997) or *'from clutter to collaboration'* (Hutchinson, Foley and Oztel, 1996). They act as a gateway for existing firms to: support in marketing, business survival, staff and management training, quality management, corporate and business planning, and European issues and information (Cutler, 1994).

The creation of Business Links would seem to offer an opportunity both to rationalise support in the UK (by reducing duplication) and to develop some specialisation by different enterprise

agencies. However, we found that, in the case of Birmingham, there was little attempt to do either. Some provision for targeted support for ethnic minority clients was provided, as might be expected, but there was no attempt to encourage specialisation beyond that which currently existed (1996:141). The need for rationalisation was accepted by the President of the Board of Trade in a foreword to the prospectus to develop one-stop-shops (DTI, 1994). *'Besides anything which reduces the confusion caused by 125 support agencies in one county (Ritchie et al., 1984) must have some merit'* (Hutchinson, Foley and Oztel, 1996: 521).

Business Link's aims, though these are confused and subject to policy dissonance, are to target growth firms,. Though the way in which this is put into practice is not clear. In the case of Business Link Birmingham(BLB) *'although BLB has a clear policy of providing support through PBAs to existing firms the criteria for supporting growth firms were admitted to be unknown'* (Deakins, 1996:145). Yet the other part of the argument advanced by Storey, to switch resources away from start-up support was adhered to, Deakins comments:

At the same time, the Business Start-up Scheme has been phased out with an accompanied reduction in schemes of blanket support. Although there is a powerful argument for switching resources away from start-up support, the criteria for selecting growth firms have not been developed. 'Picking winners' has been advocated yet we are still no nearer developing criteria that will identify so-called 'fast-track' firms. As another officer has admitted: 'we don't know what the answer is (to picking winners)...at the end of the day it comes down to self-selection.'

Growth firms will hopefully phone in BLB for advice and support with their business development. (1996:145)

The issues surrounding policy making and the implementation of policy are complex. Rather than seen as a 'top-down' policy that fails through haphazard implementation without control, policy has to be seen in a 'bottom-up' or action-centred manner (Hill, 1997). Hill suggests the reality of *'changing and changeable policy, a complex interaction structure, an outside world which must interfere with implementation because government action impinges upon it, and implementing actors who are inherently difficult to control'* (1997: 139).

2.3 Implementation.

Although a new policy may attract support, to fully implement the policy requires expertise. Many studies have made much of the difficulties met by policy-makers implementing new policies. The following section discusses theories concerned with the policy process. Although the policy process literature is located within political science, it has implications for management areas too. In seeking explanations of why policy fails, the literature is close to that of strategic management within the subject matter taught by business schools.

Political science's implementation analysis describes what happened to policies after legislation. Pressman and Wildavsky (1973) suggest sequences occur within policy implementation because government agencies that implement policy have to make joint decisions. For example, the Housing Corporation, Government Offices of the Regions, local authority housing departments, housing associations, housing offices and housing officers all realise the Government's housing policies. Each of these levels has some limited degree of discretion, which will subtly alter policies as they filter down the hierarchies, and leave grains of the policy behind (Lipsky, 1971). The more decision-points arise; the less chance that the policy will be carried out as intended. Pressman and Wildavsky's probabilistic decision-making theory held that at each stage in the sequence, say, a one-in-ten chance that the policy failed. New decision points and more complex decision-making undermine effective policy.

John (1998) suggests that complex, fragmented UK urban policy of is a classic example. Local authorities have partnerships, development departments and companies to promote local economic development. Chambers of Commerce and the regional Confederation of British Industry play a role in the private sector. And a whole host of government quangos all add to a myriad of business support. John argues that the Business Link failed to rationalise this support; just added another agency. Urban policy negotiates a tangle of departments, regional bodies, quangos and local authority bodies.

But government's do implement policies. Tests of Pressman and Wildavsky's model find that the government can re-introduce policies and increase their chances to successfully implement policy (Mazmanian and Sabatier, 1981). Moreover, successfully implementing policy at the start creates a 'bandwagon' effect increasing the chances of later success. Government policy is more successful than Pressman and Wildavsky's model predicts (Bowen, 1982) In addition, the

approach assumes that policy is a top-down process, where the higher level makes policy; the lower level implements policy. The reality is more complex. As John (1998) suggests:

...this presupposes that higher-level policy-makers ever thought of the policy clearly in the first place and that they wish to have such detailed control over decision-making. Politicians and senior bureaucrats are often happy to react to events, create symbolic policies and leave the harder and more controversial decisions to lower-level organizations and local authorities which can take the blame if a policy fails. (1998:29)

Lower levels of government have a more pro-active role than the Pressman and Wildavsky's model implies, however. Policy is made up and down the hierarchy. Top-level decisions can legitimize policy choices, already made lower down the hierarchy and all agencies learn from each other (John, 1998). The top-down explanation of policy fails. Sabatier's criticisms of implementation studies conclude that researchers cannot divide making policy from implementing policy. After rejecting the top-down approach, after rejecting the implementation approach, the researcher must engage with the gamut of policy-making (John, 1998). Again the rational, top-down approach is criticised. Rather than taking the top-down rational approach to policy, following Lindbloom (1960) many political scientists see the process as incremental. Policy-makers muddle through. Policy is a process where groups, agencies and experts adapt and reformulate policy and learn from their mistakes (Sabatier, 1986). Much public policy analysis uses the group or network approach, where close networks make policy (Heclo and Wildavsky, 1974; Rhodes, 1988; Marsh and Rhodes, 1992). Heclo and Wildavsky's (1974) study of British economic policy suggested that the values of close network of Treasury civil servants and allies across Whitehall explained policy better than the democratic structure.

The policy studies literature signals several messages about UK business support policy. First, that the policy operates within a fragmented, complex area with many groups and actors involved in the policy process. Although this does not automatically lead to policy failure, the fragmented nature of the agencies involved in UK business support would lead to a loose network of policy actors: civil servants, academics, practitioners and so on, a situation wholly unlike that operating within agriculture, for example. This loose network might enable policy-makers to consider a wider set of ideas but it may also describe a fragmented, shifting set of

alliances. Indeed Sabatier (1986) suggests that a policy advocacy coalition (PAC) best describes policy-making. The framework combines networks with ideas to suggest that policy coalitions compete to dominate a sub-sector of political decision-making. Other approaches emphasise policy streams where policy is formed at the confluence of three streams: problems, policies and politics, where policy entrepreneurs propose solutions and where election results and shifts in public opinion determine how the media and opinion-formers perceive problems (Kingdon, 1984). Moreover, policy approaches can discuss the conditions where policy making is stable and when the equilibrium is punctuated, and as period of 'policy activism' takes hold (Baumgartner and Jones, 1993).

In the case of Business Links, there is some confusion regarding the targeted business support. Thus, the policy seems to lack clarity in its purpose, at least by the time it reaches the people responsible for implementing the policy. As Hutchinson, Foley and Oztel, (1996) put it:

Firstly, as noted above, Business Links are funded by government and other partner organizations to assist local business growth and improve competitiveness. Unfortunately few of these organizations have stated whether these small business support services should be offered to everyone or a few selected businesses. The DTI prospectus (DTI, 1994, p7) states Business Links 'will need to work proactively to develop a long term relationship with a portfolio of local businesses'. This suggests help for a few rather than all businesses, though the latter option is not excluded. More recent DTI initiatives have stressed selectivity and the need to target growth companies...More income can be generated through selective assistance to a few busuiensses who may be able to pay (now or in the future) for services. But a moral dilemma may exist about 'subsidizing' these businesses (via additional help or cheaper fees) and excluding others or charging them more. Similarly, targetting certain businesses may run counter to a public service ethos of assisting everyone on equal terms who requests advice (Hutchinson, Foley and Oztel, 1996: 520).

Drawing on the experience of Business Link Birmingham, Deakins (1996) found that eight areas of business support were developed:

exporting, sales and marketing, quality, team development, management and finance, legal and regulation, property and technology. Help is on three levels. First, information and advice is available by phone. The second level uses the personal business advisors to carry out a 'diagnostic' on the business, to assess the 'real needs of the business' (1996:140).

The third level is where the client is referred to an agency that will carry out the PBA's recommendations. The PBA then, changes roles to act like an account manager, keeping tabs on progress and developing a longer-term relationship. Regarding targeting of Business Link services to growth-orientated firms Deakins notes:

Although in theory, Business Links are meant to target existing SMEs that employ between 20 and 200 employees, we found in BLB's case that this target had already been revised downwards after six months of operation to include firms that employed five or more. In addition the idea that Business Links could target 'winners', (i.e. the small number of fast growth firms), was not backed by any criteria for targeting such firms beyond a belief that they would be self-selecting. In BLB's case it was believed that such firms would select themselves by coming forward for assistance (1996:140).

Deakins found little evidence that enterprise agencies targeted support, although larger agencies were more likely to do so. Relatively few attempts to provide specific assistance to specific groups were made. A minority of enterprise agencies ran 'Women into Business' seminars. Deakins eulogises the opportunity offered by Business Links.

Business Links provide, or signpost, small businesses with consultancy to help them to realise more of their potential. Business Links employed personal business advisors (PBAs). PBAs were: *'to work proactively to develop a long term relationship with a portfolio of local businesses, focused particularly on small companies with growth potential'* (Bushell, 1995, 166). Smallbone and Storey's views have shaped Business Link policy. Bushell's view of the PBAs role is echoed by Agar

(1994) PBAs *'this person needs to be able to search out, identify and home in on "established businesses with growth potential"* (1994:1). Although the Business Link could target and leave the PBA free to signpost relevant help. At the time Agar wrote this note PBAs thought the policy asked them to 'walk on water'.

Agar (1994) believes that: (1) PBAs must operate as true business generalists and that recruitment and training should aim toward that end; (2) the PBA's ability to maintain productive relationships is as important as the need for generalism; (3) the Business Link must find criteria to effectively segment the customer base on the basis of their development stage to focus individual PBAs on a target group; hence (4) Business Links should recruit PBAs with experience at different stages of development of a growing business; and (5) although the PBA must undertake the diagnosis of their businesses, PBAs should facilitate other specialist help even if the particular PBA has those skills.

That PBAs need business experience (in lieu of theory) is a truism. Agar suggest that not only should the experience be in small businesses but also PBAs need to understand underlying principles to be able to apply them to all new situations and different business sectors. Like good chess players PBAs must recognise different board situations positions as well as play a full game. he says:

PBAs must have a clear grasp of the key principles, issues and practices in each of the main business functions so that they can be applied irrespective of sector, size or any other factor that differentiates business. As generalists, PBAs must be able to see how the whole picture fits together and what are the implications of wider developments in the business's total environment. (1994:5).

Thus the PBA plays simultaneous games and by analyses board positions picks the right move.

Though business experience can be invaluable it is *'neither sufficient nor absolutely necessary to be a good PBA'* (1994:5). Instead says Agar, we should focus on the ability to create empathy. Business counsellors visiting Durham University Business School (DUBS), from existing networks most often display a strong preference for judgmental behaviour compared with population norms,

they are likely to reach conclusions quickly without sufficient information (see Kruglanski, 1992 for the effect of this).

Agar rejects market segmentation by sector because the sectoral experience of the PBA is unlikely to be specific enough, and the approach might re-cycle standard industry solutions. The latter argument is a plea for PBAs to diffuse their business experience across sectors, yet the real problem it seems to me is financial - too many sectors; not enough PBAs. And because of the cost of PBAs there never will be enough. In addition, problems are multi-faceted and the functional specialist probably does not have the functional sub-specialism required.

Audretsch (1995) argues that not only are a small number of small firms responsible for the economic effect of the small firm sector but also that those small number are clustered in industries with new knowledge and innovation. Today's routinized industries will not produce tomorrow's Microsofts. Thus, Business Link's or local economic development agencies might focus fruitfully on knowledge industries. Smallbone (1997) disagrees, he argues that although commercial databases can identify fast growing sectors, this often misses the individual fast growing firms. Many firms in many sectors increase employment because firm *'behaviour varies widely within sectors, both in so-called "fast growth" sectors and in others'* (1997:132). Local data is unreliable as a basis to target local growth sectors. Smallbone agrees with Curran and Blackburn (1994), however, that SME owners demand sector-specific advice, which Business Links should endeavour to supply.

Agar suggests Business Links should divide their market into three distinct types of business: owner-managed growing businesses with 10-30 employees, businesses in transition where the owner must develop a management team, with 30-60 employees, and team managed growing businesses where the established team wants to grow. Each stage requires the PBA to play a subtly distinct role: "helper", "facilitator", and "consultant" respectively. However, evidence from Smallbone, North and Leigh (1993) suggests that firms in the latter group, established management team businesses with over 50 employees actually use the private sector. In this last group there is a potential for the public provision to crowd out the private sector with unnecessary duplication and unnecessary subsidy.

Agar notes a perception amongst a substantial minority of PBAs that they should work with all businesses regardless of their potential to grow. Agar argues that whilst Business Links are charged with the responsibility to meet needs from all business, PBAs - a scarce valuable

resource - should be targeted to maximise their productivity. But does targeting make the most use of their resources?

How many clients? Agar argues that 40 simultaneous games are sufficient for any grandmaster, more games (higher portfolios) undermine the programme. In short the PBA must:

- establish and manage relationships
- undertake a holistic analysis, diagnosis and provision of small business needs
- develop appropriate solutions with the business
- know when to introduce a third party
- help the business to select, use and manage third parties.

The PBA's role is like an account executive in advertising agency, he or she looks after their client, is their client's interests but provides no service, while the advertising 'creatives' provide the copy. Unlike the account executive, however, the PBA has to determine the solution. Whereas in advertising the solution is clear - more advertising. In the SME the solution is often opaque. And if that were not enough the institutional position of Business Links differs throughout the country.

The relationship between the Business Links and TECs is close - TECs were invited to set up Business Links (DTI, 1994). Hutchinson, Foley and Oztel (1996) suggest that there are three typologies of Business Links: TEC as owners, TECs as key partners and TECs as contract holders. As you move from owner to contract holders, there is more freedom of movement for the Business Link. Business Link Birmingham as an example of the contract holder model, three partners the TEC, City Council and Chamber of Commerce are the shareholders in the Business Link, that is led by its chief executive. Bryson Churchward and Daniels (1997) take issue with this categorisation, believing that a plethora of organisational structures describe Business Links and their partners. They do concede that the third typology, practised by Business Link Birmingham may be most successful.

The Business Links can pursue added value through partnerships. However, the collaborative arrangements for partnership between existing competitors can be painstaking. Members of Chamber of Commerce, for example might be private sector business advisors and consultants. *'individual partner organisations not only have their own interests to consider but that these have to be balanced against those of the constituencies of support enjoyed by other partners'* (1996:519) Not only will different interests affect the structure of the partnership but also the mode of delivery. Business Links can adopt preferred supplier contracts for service delivery. They can segment their markets with each sector being served by a different partner. They can offer services using their own staff. The integration of services can work well and this adds value to local support (Hutchinson, Foley and Oztel, 1996). Though the contribution of Business Links will be realised in the improvement of local SMEs (Keeble et al, 1991; Bryson Churchward and Daniels 1997).

Bryson, Churchward and Daniels (1997) suggest that PBAs are *'the key to the success of each Business Link; it is they who form direct long term relationships with local SMEs.'* (1997:721) PBAs usually have direct experience in running small businesses (Bryson Churchward and Daniels , 1996; DTI, 1996). Yet the PBA model is expensive (Bennett, 1995) and one method to recoup funds is to aim the service at growth companies (Bryson Churchward and Daniels, 1997). They say that there:

are problems with such targeting as it assumes that rigorous and accurate modelling techniques can be developed to identify growing versus declining companies. There is also the danger that services will be supplied to companies that do not require them, or to companies that in any event would have employed a private sector consultant without subsidy. (1997: 721)

This confusion over which is the client group also extends to the SMEs too (Summon, 1998). The current role of PBAs is that of gatekeeper to business advice (Hutchinson, Foley and Oztel, 1997). The core areas of a PBAs role are to: manage relationships, analyse needs and to manage change, manage a portfolio of clients and manage third parties (Agar and Moran, 1995). Moreover, PBAs, are generalists, usually facilitate advice, they are not usually the direct key to business success even if their advice could be seen to be a key success factor (Hutchinson, Foley and Oztel, 1997). As part of the Business Link the operations constrain PBAs. *'...the role of the PBA is evolving as the policy matures'* (1997: 725).

Agar and Witzel (1994) noted the confusion surrounding whether PBAs should work only with those businesses that have a potential to grow. PBAs have been provided with professional development and continued professional development from a minimum 60 hours per year (Bushell, 1995). Their development has highlighted the importance of experience and peer group learning: *'a significant amount of learning takes place between participants as they exchange experiences both on the PBA role and on specific techniques (e.g. for analysis)'* (Agar and Moran, 1995, 5).

Lean, Down and Sadler-Smith (1999) reported a national survey of PBAs. They suggest that PBAs mainly advised growth firms, although *'a significant minority of PBAs regarded the provision of services to 'steady-state' businesses (defined as firms without growth potential and/or growth ambitions) and businesses in need of turning arounds as substantial aspects of their work'* (1999:84). The survey's found that PBAs identified firms with growth potential from informal assessments through the owner-manager's motivation. These firms might be the most useful for PBAs to advise but they seem a long way from Storey's 'flyers'. Lean, Down and Sadler-Smith noted that the targets set for the PBA service to become self-financing shifted the focus of PBAs towards firms who could pay for services.

There is a geographical tension within the Business Link network between local specialisms and collective action like exchanges of best practice, joint EU funding, joint accreditation of consultancy (Bryson, Churchward and Daniels, 1997). The Business Link policy is:

'a complex policy which was designed to encourage the customized provision of SME advice services at a local level...a local monopoly of SME advice may be equally damaging as a confusing 'welter of advice and information' (DTI, 1993). The evidence to date suggests that the Business Link initiative is not living up to expectations. A survey undertaken by the Forum of Private Businesses in 1995 revealed that only 9.7% of SMEs had utilized a Business Link company as a source of external business advice. The key question which our research is trying to address is that of the value of external advice to the SME' (Bryson, Churchward and Daniels, 1997:722).

A second issue surrounding the Business Links is the requirement to fulfil quantitative targets. This requirement means the Business Links have to meet targets for number of business visits,

and quantity tends to drive out quality. In the German and French systems, support tends towards existing business, Deakins quotes an officer of the Comite d'Expansion Economique talking about his customers: *'One third are people who want to start a new business; one-third are clients who want to develop an existing business and one-third were people who were facing difficulties.'* (in Deakins 1996:145). The indicators used by government constrain agencies. Task orientated help may benefit start-ups but continued support for management skills is what is required.

Funding is an issue (Cutler, 1994) Business Links were intended to become self-funding though more recently the government has said it will *'continue to fund the Personal Business Advisor service after the pump-priming period and that funding for services would be through a rolling three year programme'* (DTI, 1995: 5). Business Link Birmingham is the only Business Link to become self-funding through an appropriately entrepreneurial approach (Hutchinson, Foley and Oztel, 1996). Summon (1998) reports a respondent to an IoD survey on Business Link:

If Business Links were capable of being self-funded in 3 years, then some enterprising entrepreneur would have established them already. The only way in which the Business Link scheme can ever be self-financing is if it provides a service and quality well exceeding anything available in the private sector currently or in the future. This is maybe a wonderful ambition for a government initiative but it is totally unsupported by the proven evidence, the experience of history and basic logic. (1998:53)

Whilst funding of the Business Link is one issue. The way that the Business Links themselves organise their PBA team might be expected to influence the way in which it responds. The consequences of the salaried PBA versus the self-employed PBA are played out in table 10.

Table 10 Impact of PBA contract on Business Link Policy

PBA Contract	Incentives	Companies targeted	Consequences
PBA self-employed	Incentive to target wealthiest firm	Those with deepest pockets, which maybe growth firms	Probable displacement of private consultants
PBA salaried with performance indicators	Incentive to target enough firms to justify their salary - keeping busy	Growth firms unless there is a shortfall	Probable focus on a broadening target

Table 10 suggests that the self-employed PBA act, in effect, analogously to a private consultant. They have incentives to target those with the deepest pockets and may displace private consultants, with associated displacement costs of the policy. Where PBAs are salaried, however, different consequences might be discerned. They face slightly different incentives. They need to fulfil their performance indicators and therefore must ‘keep busy’. This pressure is more likely to result in the PBAs targeting non-growth firms, if they are not reaching their targets. Thus, performance indicators soften the targeting policy.

In addition to the variety in PBA contracts, Business Links varied in their requirements for PBAs. Some Business Links adopted a deliberately proscriptive approach. They developed a checklist of factors for the PBA to tick. Some even went as far as using a computer model called RiSK Analyser. Others adopted an emphasis on judgement. One Link, for example suggested that its questions were really aide-memoire for PBAs. They required a written assessment of the firm, over twelve pages.

In an assessment of TECs Bennett et al (1994) suggested that their power was too limited: *‘The key impediments to business development in the UK is that not enough power has yet been given out to redress a century long imbalance that has frustrated Britain’s economic growth’* (1994:vii).

But Emmerich and Peck suggest that TECs focus on low level skills and that large firm representatives dominate boards. Moreover, the local needs do not match the emphasis in TEC budgets (Topham et al., 1994). And again the local business community is unaware of the TECs

role (Curran, 1993). However, the higher support in Northern Ireland for SMEs has increased their growth rates (Hart et al, 1993).

UK government policy toward small firms has been switched toward support for growth and existing business and away from start-up support. The nature of such changes in policy, however, is confusing. The role of PBAs is crucial to implement this policy but their role changes as the policy 'beds-down'. The evidence of agency support effectiveness finds that they reduce death rates, rather than promote growth, though this research pre-dates the policy change. But if the policy is to succeed there needs to be a definition of small firms success. Moreover, for this research the definition of success is important.

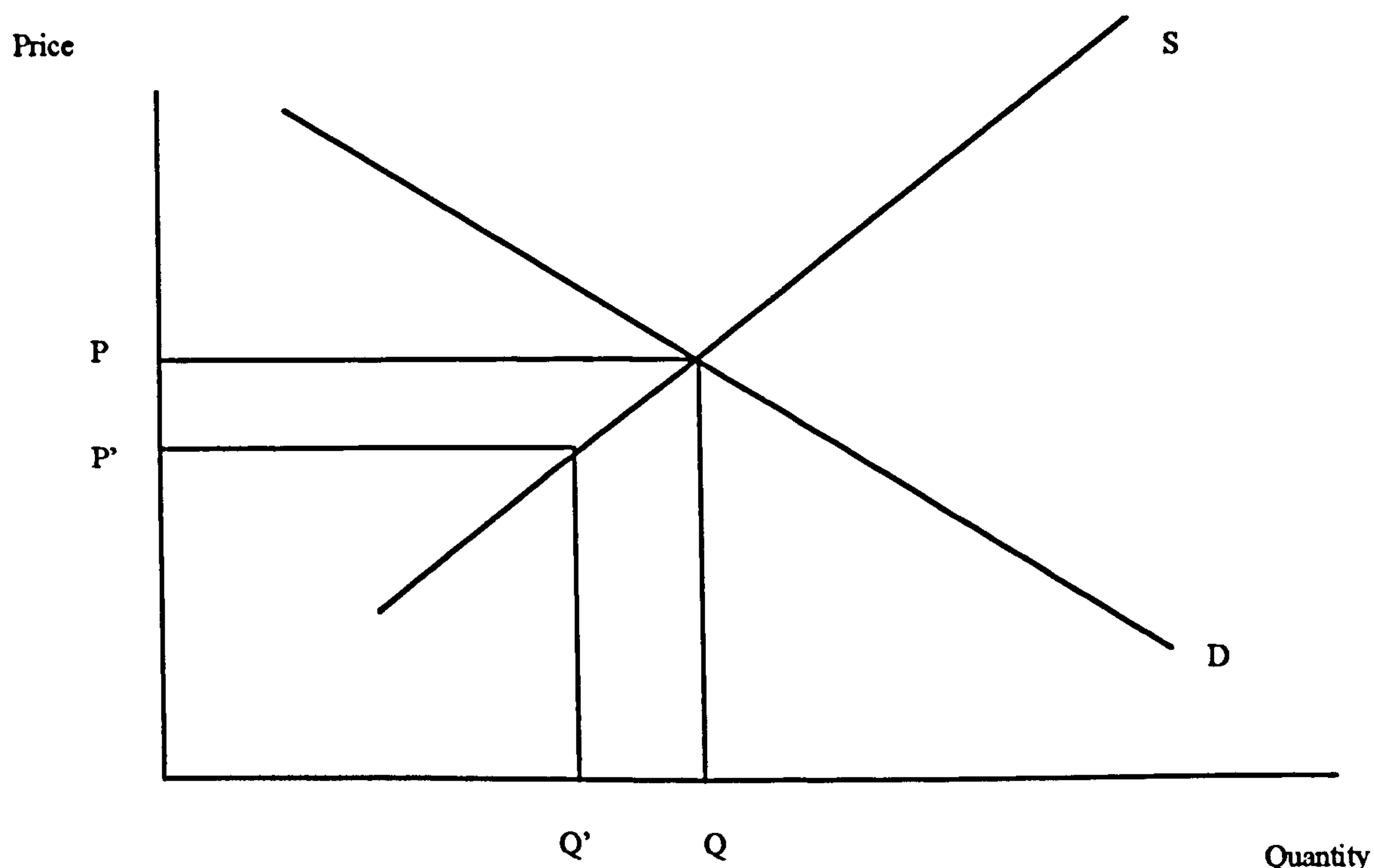
2.4 Small Firm Success

What is success for the small firm? Neo-classical economics defines success in terms of profit. The behavioural assumption is that the firm is a profit-maximiser. Accounting textbooks mirror this approach seeing the joint-stock company's goal to generate returns for its shareholders.

The idea of the infra-marginal firm is that the firm making the most profits is the most successful, in an industry. The idea of the infra-marginal firm depends upon relaxing the assumption within perfect competition that all firms face the same costs.

Figure 2 shows a simple demand and supply diagram for an industry. Supply is the horizontally aggregated costs of all the firms in the industry. The supply curve is upward sloping because increasing output leads to increases in costs, due to inefficiencies once you push output beyond a certain level, called diseconomies of scale.

Figure 3 Demand and Supply



On the demand side as the price falls, holding everything else equal, consumers demand more of the good or service. So, for example, increased taxes on cigarettes drive up the price and reduce demand. The demand curve slopes down from the top left-hand corner.

The market clears where the demand and supply curve meet, determining the industry price and output in a competitive equilibrium, in this example the price is P with output Q .

Suppose the price falls to P' . The industry supplies Q' . This might be some combination of all firms reducing supply or some firms leaving the industry. The firms left can still break-even or cover their variable costs at this lower price P' . Those firms still left have cost leadership. In a competitive market structure where firms face the same set of prices the firm that makes the most profit is most successful. The UK electricity industry provides an everyday concrete example of the infra-marginal firm. When demand is low the pool price of electricity is low and only the generators with the lowest marginal cost provide electricity. As the price increases during the morning less efficient generators come on line, as the pool price increases. This success is demonstrated by profitability.

In practice, using profit as a measure of performance is less attractive than at first sight. Firstly, firms' objectives may not be to simply maximise profits. Researchers have questioned whether profit is a constraint upon other objectives, such as sales maximisation or asset maximisation (Baumol, 1959; Marris 1964; Williamson 1964.) More complex still is if it is considered that firms operate under bounded rationality, pursue multiple targets and do not necessarily maximise anything (Simon, 1959; Cyert and March, 1963)

Secondly, high profits may not measure performance success but measure market structure. Monopoly power in a market, whether a global market or niche market confers monopoly profits. The firm can restrict output to increase prices. This is not necessarily due to the firm performing better.

Third definitions of profit are not straightforward. The definition of profit from an accounting point of view differs from an economists definition. Profit for the accountant is an assessment of the trading status of the firm (Smith, 1992). As a measure it is subject to different accounting standards, depending upon, how the accountant calculates capital depreciation, whether s/he includes managerial costs, and the importance of loan capital to a company, for example. All these and other differences affect the profit figure and this figure is a commercially sensitive one. For example, the method used to value stocks can have a large impact on the profit measure.

For these reasons' profits may not be a good measure of performance. Measuring performance depends upon the objectives of the business. Firm behaviour and performance do not just affect shareholders and firms; they have much wider ramifications. Different groups may look at success from their own perspectives.

Profit motive. The behavioural assumption of neo-classical is that the goal of the firm is profit maximisation. Partly, again this reflects the use of calculus in that with a function to maximise the theory is predictive. Take away the profit-maximising assumption and the theory lacks predictive power. The profit maximising assumption is deeply embedded in our society gaining support from accounting theory and stock market analysts through to Marxists surplus theory (Aaronovitch et al, 1981; Glautier and Underdown, 1986).

To use the profit motive to define price and quantity the model needs to consider costs. As output expands firms take advantage of some economies of scale and unit costs fall. However, they do not continue falling and at some point the accent switches to diseconomies of scale. Average costs and marginal costs are represented as U-shaped.

This predictive power comes by introducing revenue to costs. As the marginalist revolution suggests it is by equating marginal costs and marginal revenues that the profit maximising point is reached. This is where the profit (mathematical) function is maximised. The theory often goes under the name comparative statics.

In a competitive market, the marginal revenue curve is flat, and price will equal marginal cost. Under this condition the firm is a price-taker. When the firm has the ability to influence price by changing quantity the firm is seen to have some degree of monopoly power in monopolistic competition. These distinctions reflect different markets. The extensions of the model show monopolistic competition whereby firms have introduced some element of product differentiation. Thus, despite its level of abstraction the model has something for practitioners, and indeed, Porter's (1980) generic strategies can be seen as derivation for this model. However, the model is a poor description of what firms actually do. Evidence suggests firms have little idea of their own price demand curve. Hall and Hitch (1939) found that firms do not attempt to maximise profits. They set prices rather than act as price-takers. Price setting was on an average-cost principle

$$P = AVC + AFC + \text{Profit margin.}$$

Firms then sell as many products at the prevailing average cost price. Further, Gordon (1948) argued that the presence of uncertainty precludes use of the marginal cost pricing. Managers pursue a multitude of goals and concentrate on solving 'local' problems, without recourse to marginal pricing. Firms do not act to maximise profits in the way neo-classical theory predicts. Oligopolistic behaviour was widespread, firms are conscious of the reactions of competitors.

Machlup (1967) believes Hall and Hitch's evidence is inconclusive because accountants and economists definitions of profit are different. Moreover, the job of the marginal theory of the firm is to predict changes in markets due to changes in tax, demand or costs. This it does well.

Friedman's methodological defence is that because the traditional theory of the firm yields good predictions it should be accepted. The realism of the assumptions are not the key criteria.

Koutsoyiannis (1979) argues that average cost pricing implicitly reflects the elasticity of demand, though the firm might not recognise it as such. Consequently, the controversy surrounding the theory of the firm is far from over. It does however, yield some interesting results and implications, particularly for corporate strategy. Porter's (1980) generic strategy typology can be seen as based on the way to gain economic rent, by either differentiating products or niche marketing. Thus corporate strategists and economists approach rent-seeking behaviour from two different standpoints, good strategy is what economists call anti-competitive behaviour.

The firm's objective may be sales growth, from Baumol's model, and from Ritchie growth is the government agency's objective. SMEs interest government institutions because they contribute to growth, as well as employment. The difference between Storey's flyers and trundlers is in the pace of growth in the firm, but researchers measure growth using different variables. Many researchers in the ESRC programme used employment growth as the dependent variable. There may be difficulties using this variable.

First, the EU defines SMEs by numbers employed. Should the first order of this variable, the first derivative, growth of employment; be the dependent variable? The links between the two variables seem unsatisfactory.

Secondly, there is a category of firms exist that innovate, grow quickly but which do not take on more employees. If employment change defines growth then innovative small firms that generate wealth and indirect employment will be defined as unsuccessful.

Third, change in employment is a 'lumpy' variable. This makes the timing of the research a factor. Studies have shown growth to be unrelated to the previous year when employment was the dependent variable. This may reflect the lumpiness of the variable although it may be that growth is not cumulative, which would be a significant result. Employment growth is discontinuous. It is more cost effective to hire ten staff all at once rather than one a week for ten weeks.

So if employment growth is inappropriate, although it has been used extensively, what variable could describe growth? Following Baumol sales growth appears as a reasonable variable to

capture growth. The West Midlands Business Survey (1996) reports growth of sales as the largest contribution to increased profits by West Midlands firms because if you hold the profit margin constant then profit equals the margin multiplied by the number of sales and growth in sales can feed directly through to sales. Sales growth may be highly correlated with profit growth in any event. Steady-state economic models take asset profit and sales growth to be growing at the same rate.

Sales growth may capture the success of the innovative firm as its turnover increases and reflects the objectives of government institutions. Economic growth has been a government objective since the Second World War.

Sales growth is continuous, related to the objectives pursued by firms and reflects the objectives of quasi-autonomous governmental institutions. So if a measure of success and performance is sales growth what does prior research indicate are the independent variables?

2.5 Firm Growth Theory

Given that the government has decided that the key for employment is to generate growth in the SME sector then we need some way to theorise about growth. We need an idea of what it is that causes growth so that policy choices will, in fact, increase growth within the SME sector, or individual SMEs. In short, we need theory.

Advisors need some model of the high performing firm to use as a yardstick. What models are available? Economists have an established theory of the firm, the neo-classical model.

Neo-classical models derive from the marginalist revolution in the 1870's. Writers such as Leon Walras introduced calculus into economic models. Neo-classical models explain how individual utility maximising behaviour can lead to socially optimal outcomes, and equilibrium (Aaronovitch et al, 1981). Today every economics student learns about perfect competition, monopoly and points in between. Yet the neo-classical theory of the firm is really a theory about markets rather than firms. It explains the price setting and output producing behaviour of firms under different market conditions, however, it does yield some interesting results and implications for business strategy.

Because the neo-classical model is a poor description of firms authors have come up with alternatives, in the first instance questioning the behavioural assumption. Managerial theories of the

firm regard the firm as a coalition. Members of the coalition have different interests. The divorce between ownership and control in large firms gives managers some discretion over policies pursued by the firm. These theories often introduce the idea of managerial utility, where managers have different motives other than maximising the profits of the joint-stock firm. There are three such managerial theories presented here.

The first suggests firms maximise sales subject to a profit constraint (Baumol, 1967). Baumol suggested that in his consultancy dealings with executives, they concentrated on increasing sales, and managers incomes were correlated with sales. McGuire, Chiu and Elbing (1962) correlated executive salaries and sales revenue for 45 of the top 100 industrial companies in the US, over the period 1953-59. They found salaries are more strongly correlated with sales revenue than with profits. This might not mean managers target sales. Marby and Siders (1966) found correlations between turnover and profits, interpreted as contradictory to Baumol's model. Sales maximisation is not incompatible with long-term profit maximisation (Peston, 1959). Steady state models suggest that in the long-run profit, sales and assets grow at similar rates (Allen, 1967). The evidence for Baumol's model is inconclusive and may point to a rule-of-thumb used to promote long-term profits. Firms may be increasing sales with a cost plus price in order to maximise long-run profits.

A second variation on the theme is to maximise the balanced rate of growth (Marris, 1963). The balanced rate of growth is the growth of demand for the firm's services and the growth of the firm's capital supply. Managers' utility increases through optimising the rate of growth of demand and capital. This model suggests that the firm faces two constraints: the capability and extent of the existing managerial team, and a financial constraint. Adopted from Penrose, Marris argues that the capacity of the managerial team acts as a constraint on the growth of the firm. Hiring new managers can increase capacity but there is a limit to which managers can be hired and integrated into the firm. The managerial constraint increases but can only increase so far. Similarly, R+D acts as a new product development constraint. Only so many new products can be developed at a time. The financial constraint operates because managers risk profile is reflected in the prudent financial policy. This policy decides the debt ratio, liquidity ratio and retention ratio. Thus Marris has incorporated financial policy into a model of the firm. This at least starts to open up the 'black box'. The emphasis on constraints is a second element that is helpful to take from the model. Marris understands that the steady state growth rate of demand, profits and capital are 'reasonably equivalent' over the long run. Hence, although managers and

owners might have different goals, maximising the rate of growth is compatible with both groups' interests. This model is interesting for a number of reasons. First, it argues that growth within the individual firm is constrained by factors. Thus an approach as an advisor could be to identify the factors and then to relieve these constraints. Secondly, the factors Marris argued were important are finance and managerial capability. Thus as a model it might be useful for a small businessperson or advisor to use in a practical way.

Another model of the growth of the firm is Penrose's, on whom Marris's model relies. Penrose (1959) modelled the growth of the firm. She deliberately drew her focus on the internal processes of corporate growth. The firm is assumed to maximise long-term profits. This means that the firm will want to pursue any investments that yield a positive return, regardless of the overall rate of return. The theory's core is the set of 'productive opportunity'. These are the opportunities that the firm is aware of, and can make a profit supplying. This puts the managerial team at the centre of events. Each firm has a particular history within which managers have acquired skills and experience. Each firm, therefore, is unique. Given no external constraints, the firm cannot grow faster than the existing management can plan for. The firm can acquire management talent but then needs time to integrate the new managers. The rate of efficient managerial expansion is limited, but growing. It is limited by the existing management team but is growing through the added experience of the team and any additions to that team. If the existing markets are growing at a slower rate than the managerial constraint then the firm will start to look for additional markets through diversification. The diversification will tend to build on the existing resources. It will be close to the existing markets, the type of service these resources offer, and the unused capability. We would not expect retail bankers to move into oil exploration but they might try insurance, for example. Downie (1958) looking at the competitive process, suggested that the relationship between profit and growth was reflexive. Those with higher profits could support faster growth. Further, the more efficient firms, with higher profits, could grow faster by taking customers from the less efficient firms. The managerial and demand from the firms' industry constraints, constraints that can be overcome in the medium-term, impede firm growth in these models. Though the behaviour of profit maximising is assumed, it is long run. Further, these models are more explanatory of the internal processes of the firm and are not comparative statics but dynamic models. The further extension toward explanation occurs if one abandons profit maximisation as in bounded rationality models.

Bounded rationality models. A further alternative is that firms do not maximise anything. The behavioural theory of the firm derived from bounded rationality Simon (1955). Cyert and March's (1963) theory derived from four case studies two laboratory studies. The firm is seen as a coalition of groups with conflicting interests. It particularly applies to large multi-product firms and as such leaves little for small business advisors to draw upon.

Industrial economics demonstrates the key variable of managerial capability and the availability of financial resources. The neo-classical theory of the firm leaves us with the strategic choices about competition and differentiation. Further the, industrial economics models show the importance of financial and managerial constraints to the growth of the firm. Thus as an advisor one can consider methods to hurdle constraints.

There is also another literature concerned with entrepreneurship. In small firms the divorce between ownership and control is largely absent, the owner is often the manager. This accords with the atomistic competitive firm of economic theory and the Austrian school of economists. In Austrian economics the entrepreneur plays an important role in a capitalist economy, and entrepreneurship is central to the allocation of resources.

Entrepreneurs take risks, innovate, arbitrage and make markets. Economic agents take on and re-allocate risks when they hold contracts. According to Casson (1992) The French economist Castillon suggested this in 1755. The role of risks and contracts is still important today. An entrepreneur buys a product, or contracts to sell it in the future, as futures markets are not present for all goods and times; they take on the risk of holding stocks. In this sense the entrepreneur is acting in a role not dissimilar to the futures markets themselves, and Austrians believe they are crucial to the functioning of the capitalist system.

The entrepreneur as arbitrageur quotes prices that act as information to other economic agents in the economy. In return the arbitrageur receives a return. This return may be greater than normal profits because the population is not equally alert to opportunities (Casson, 1992). Entrepreneurs receive economic returns from being more optimistic because pessimists fail to compete in the market. If entrepreneurs help general equilibrium they are also innovators in particular for Schumpeter.

Schumpeter's model of the role of the entrepreneur is '*a romantic view of human motivation with technological optimism and an unconventional view of monetary economics*' (1992: 187). A vision drives Schumpeter's entrepreneur that she persuades financial institutions to back. The vision is innovative: a new technology or product, entry into a new export market, changing the supply chain or a new organisation. Schumpeter's entrepreneur realises the commercial potential of an invention.

In Adair (1990) Sir Clive Sinclair who arguably started the personal computer revolution discusses precisely this issue.

Sinclair firmly believes that in order to be successful the inventor has to turn himself into an innovator. 'You go out there and you start a company and you get your invention off the ground,' he says. 'You have to be a small business manager, because there are buckets of ideas around and they're not always very good ones. We don't need any inventors really: most of them are just a nuisance most of the time (1990:4)

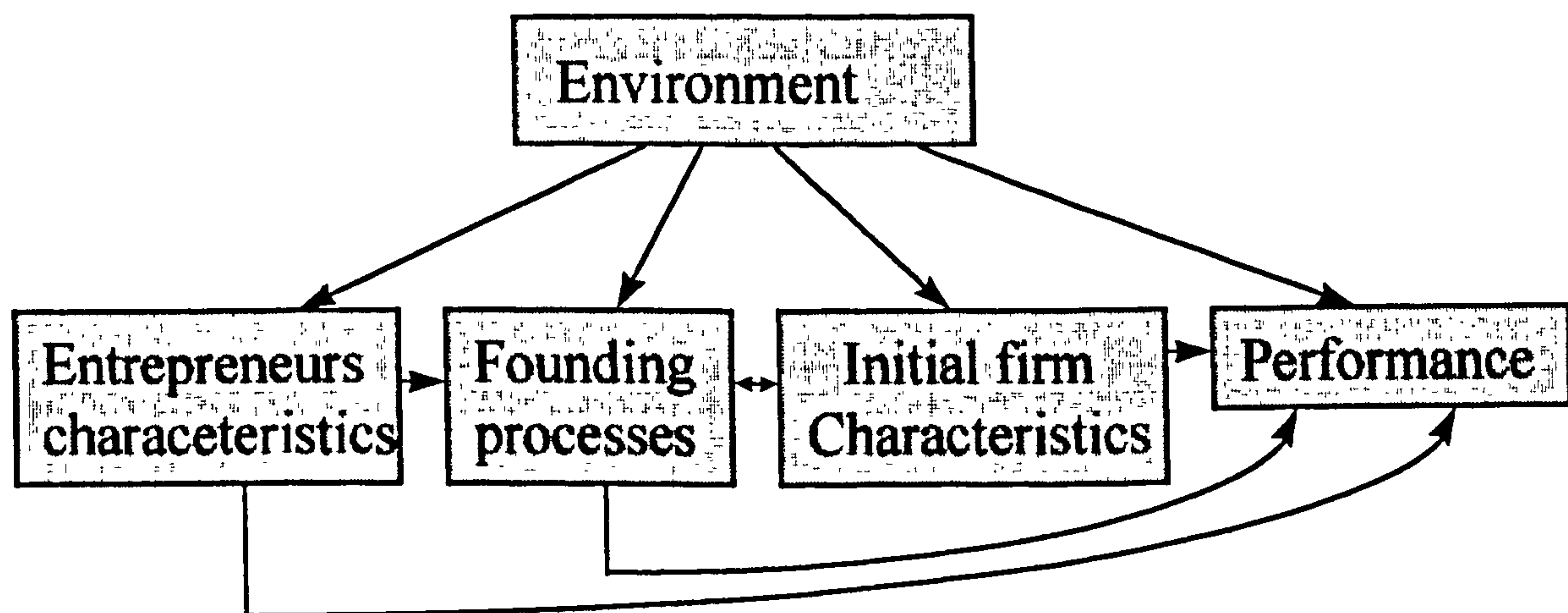
Entrepreneurs are also decision-makers. Knight (1921) argues entrepreneurs take decisions under uncertainty. He distinguished between risk and uncertainty, though this distinction is not always clear cut. A risky situation is an event with known probabilities. Repeatable events are amenable to statistical analysis. Decision analysis can reveal the risk-reward trade-off and how to insure risks. This is the role of insurance actuaries. A Midland Bank speaker at the 1995 ADC Economic Development Conference argued that banks should not take on business risk.

Uncertainty describes more ambiguous or novel situations where probabilities are not available. The decision of whether to sell a new type of vehicle is uncertain. There are techniques for decision-making under uncertainty often concerned with the attitude of the decision-maker. This requires judgement, described by Casson as decision-making in situations that are complex, novel and ambiguous. These decisions are ones that all firms take and the decisions go to the top of the hierarchy in large firms. In many ways the judgement of the entrepreneur is analogous to the strategic management choices faced by larger firms, what business or market to be in, how to structure the organisation and what strategy to use to create competitive advantage are typical judgements necessary in all firms. Moreover, the entrepreneur and CEO of

the firm lead the organisation. Casson (1992) believes economic rent accrues to the small firm where the manager exercises leadership

The research connecting entrepreneurship and new firm performance has various approaches. There is not a generally accepted theory. Cooper (1995) describes the approaches as a set of variables measurable at the start-up phase, shown in the diagram below.

Figure 4 Approaches to Entrepreneurship



Source: Cooper (1995)

The research relates these different characteristics and the interrelationship between these variables must be

'being innovators and idiosyncratic, entrepreneurs tend to defy aggregation. They tend to reside at the tails of population distributions, and though they may be expected to differ from the mean, the nature of these differences are not predictable...any attempt to profile the typical entrepreneur is inherently futile' (cited in Cooper 1995:).

Notwithstanding these criticisms, four attributes appear associated with entrepreneurship: need for achievement, internal locus of control, high risk-taking propensity, and a tolerance for ambiguity; though Amit suggests the trait approach yields more questions than answers (Amit, 1995). Further, methodological criticisms of the trait approach doubt the permanence of personality traits (Hampson, 1988), although one response is to consider entrepreneurial

behaviours, which appears much more defensible (Chell, 1997). Thus despite methodological limitations the trait approach has yielded some useful results. One does not have to accept the trait approach to note that younger entrepreneurs are more likely to lead growth companies (Barkham et al., 1994).

The founding processes involved in the new start: business planning, risk management, use of information sources, team development and finance, and their subsequent effect on new firm performance represents a further method (Feaser and Willard, 1988). Thus the effects on new firm performance of the four ingredients have been well researched. Yet the development of theory has gone on largely in parallel rather than converging on a single model.

Summing up Cooper's article Amit (1995) suggests there are six concerns with the present research to predict new firm performance.

1 identifying indications of entrepreneurial ability

2 diversity of entrepreneurial firms

3 wide variation of performance measures

4 uncontrollable environmental shocks

5 mixed motivations and incentives to start, manage and grow a business venture in independent and in corporate settings and

6 unmeasured factors in survey research that are important contributors to success (e.g. the challenge of measuring the 'right things' such as leadership and relationships).

The challenge for theory is to provide an explanation of entrepreneurship, predictions of entrepreneurial activity and performance (conditions for new profit opportunities or new firm formation) or provide normative guidance. (Amit, 1995:124/5)

Research in the field of entrepreneurship encompasses more than the normative guidance that is investigated here. The stimulation of new business ventures through an environment

favourable to new firm formation, and the distribution of entrepreneurial talent are two facets of the entrepreneurship paradigm. Entrepreneurship research considers the process by which an entrepreneur identifies an opportunity through to the founding of the business, and the development of a growing business. It is a rich source of recommendations to develop existing firms.

Notwithstanding the richness of the existing research, there are sets of unmeasured factors that practitioners are using to aid their task to develop businesses. Cooper suggests: *'exploratory research and a variety of research methodology may be needed as we seek to understand processes which have not been studied much to date'* (Cooper, 1995:121). This call for more qualitative methods is echoed in the methodology employed in this research.

All these capability factors are important to create a fast-growing SME. Clearly, it is not a simple matter and the owner must lead the organisation therefore the next section looks to organisation theory for some insights about high performance and growth.

2.6 Managerial skills

Founding teams are more likely to be associated with fast growing firms not only will they have access to capital but their skills may complement each other. Deakins saw the inability of managers of Birmingham firms to delegate as a key constraint for growth. In addition Deakins believes human resource management skills are important. Owner/managers of growing firms need to be able to motivate, delegate and stimulate their staff to achieve high performance. Some training might potentially help here. Barclay's research suggests: *'..the research reveals that some of the key hurdles to growth for small businesses could be overcome (at least partly) by taking appropriate training and acting upon advice'* (1994:23).

As to the issue of industrial relations in small firms, the Bolton Report (1971) suggested that industrial relations in small firms were good. Rainnie (1989) suggests there are some exploitative firms. Ram (1993) argues that within small firms is a 'negotiated paternalism'. Factors that promote growth in the clothing industry are a complicated combination of family relationships, ability to maintain a skilled workforce, and negotiation skills. These are subjective and difficult to measure quantitatively. The ability to survive in intensely competitive markets requires as much

ability as growth in a different sector (Ram, 1993). Deakins believes that *'the importance of human resource management skills has been underplayed, since they are difficult to identify'* (1996:192)

The 'new' flatter structures put increased responsibility on the manager's ability to motivate employees in a more ambivalent setting. Organisational theorists have a great deal to say about this area, theorists such as Likert (1961), Herzberg (1966) and MacGregor (1960).

This returns to leadership issues. Likert looked at successful managers in the US and concluded that their methods were new. He states:

...the supervisors and managers in American industry and government who are achieving the highest productivity, lowest costs, least turnover and absences, and the highest levels of employees motivation and satisfaction display, on the average, a different pattern of leadership from those managers who are achieving less impressive results. (Likert, 1961, cited in Pugh, 1971: 279)

High-producing managers develop their organisations into highly co-ordinated, motivated, and co-operative social systems under their leadership. The manager uses participation to develop a team with high expectations and undertakes a coaching role. Likert called his new management style the 'Principle of Supportive Relationships'. A recent article in the 'Financial Times' quotes Jack Denfield Wood, professor of organisational behaviour at IMD who argues that leadership has both a masculine side (getting the job done) and a feminine side (maintaining relationships). Likert's new managers use the erstwhile neglected feminine side of leadership.

MacGregor's (1960) theory Y builds upon Likert and sees motivation as the key. The organisation needs to integrate the goals of the individual with the group and it is up to management to discover how to realise the potential of the human beings working in your organisation. Theory Y submits that humans work best when committed to objectives, rewarded with responsibility and allowed creative expression.

Herzberg (1966) distinguished between motivators and hygiene factors. Motivators motivate, they relate to how well you enjoy the job, hygiene factors relate to dissatisfaction with the job. The contents of the job, achievement, the recognition of achievement, responsibility and advancement are all motivators. Hygiene factors are: the context within which you do your job; job conditions, salary, inter-personal relationships, company policy and administration, and

supervision. Good hygiene factors, high pay and good conditions reduce job dissatisfaction but to motivate employees requires such things as achievement and responsibility. The motivating employer needs to provide motivators.

The observations of Likert, MacGregor and Herzberg tell of superior performance in organisations due to leadership, supportive relationships, with employees given responsibility and allowed to be creative and grow.

SME managers require leadership skills to motivate their employees within organismic network structures, with vague job descriptions. Chell et al. (1991) found entrepreneurs in growing firms paid attention to personnel matters.

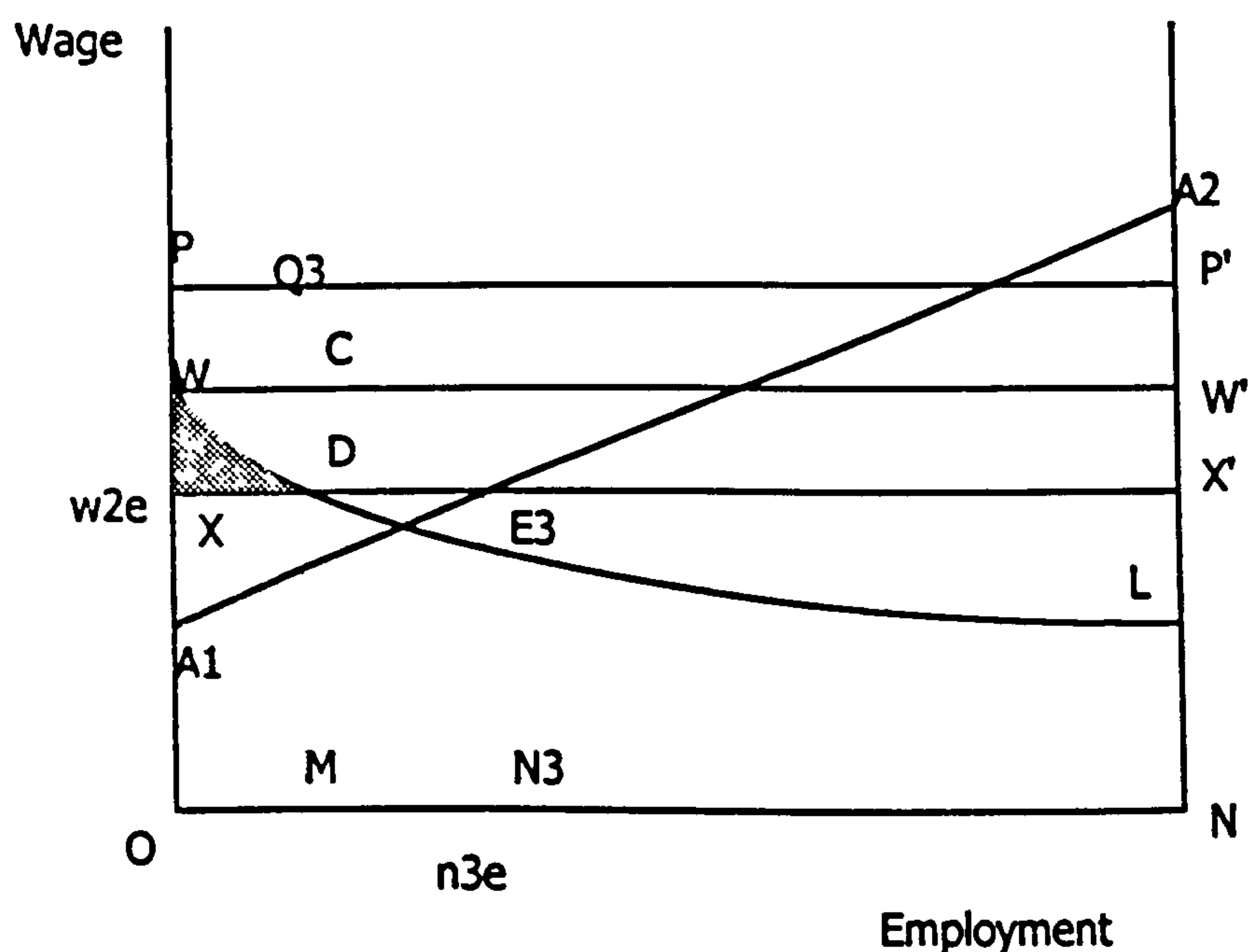
2.7 Leadership

Casson (1992) models the effect of leadership on employee effort. Leadership influences employees through personal example, moral rhetoric and emphasis on the importance of the job. Employees feel guilty when they slack. It is an emotional way to influence employees.

Casson assumes that only a few people are capable of leadership, and that if you have the ability it is a costless activity. He assumes leadership is more effective in small groups because it requires face-to-face contact, you must see personal example, and leaders can adjust 'moral rhetoric' to take account of employees values and attitudes. This may involve some cost in time but nowhere near the same as full-time supervision.

Figure 5 illustrates competitive equilibrium under the two conditions, supervision and leadership. The vertical axis measures the real wage. The horizontal axis measures employment. The demand for labour is infinitely elastic at the level OX.

Figure 5 Competitive Equilibrium with Leadership and Supervision



Source: Casson (1992)

The horizontal line PP' shows the expected value of the product. Two factors adjust the expected value downwards. Firstly, although they take on risk we assume employers are risk averse; that is they demand a return for taking on risk. The risk-adjusted expected value is WW' . This return reduces the real wage paid to employees, assumed to be the value of the marginal product. Then there is the cost of slacking; this again increases costs for the employer, reflected in the real wage. The horizontal line XX' shows demand for labour. At the real wage OX the demand for labour is infinitely elastic.

The line A1A2 denotes the supply of labour. This denotes employment in both the old industry and the new. Employees take a risk by moving into the new industry. To induce them to do so the new industry offers a higher real wage. The higher the real wage the more employees move into the new industry, hence the positive slope of the line A1A2.

At the wage rate OX (W_{2e}) the total number of employees in the new industry is On_3e where the supply of labour A_1A_2 intersects the demand for labour XX'

The new industry has two types of firm, the leadership firm and the supervisory firm. Supervision costs the supervisory firm the difference between WW' and XX' . The leadership avoids these costs but if the leader's team increases, then the leader's ability to influence, based upon face-to-face contact, will diminish and the incidence of slacking increases. The downward sloping schedule WL displays the leader's demand for labour. It is downward sloping to represent increases in both marginal and average costs with team size.

Under leadership the number of workers is given by the intersection of the leadership demand WL with the wage rate XX' and D , with employment of OM . Leadership avoids the cost of supervision but not the costs of slacking. The area WXD shows the economic rent for the leadership firm whilst the area WCD shows the slacking by the employees in the leader's firm.

Leadership is a superior method to supervision for an entrepreneurial firm. A study by Michael Unseem, professor of management at Wharton school in the US, found that leadership skills matter even in the largest firms. A new CEO can raise or lower performance by 10 per cent in Fortune 500 companies. Further, organisational leadership is most important during times of uncertainty and change.

2.8 Identifying Growth Firms

Managerial skills are crucial for fast growth in small firms (ACOST, 1990). But these skills differ from those required in large firms. They need to have:

- strong negotiating and selling skills;
- the ability to sell their business idea to potential funders;
- the ability to deal with buyers, manage the accounts of the firm, deal with tax forms, VAT and so on.

Along with these skills the company needs the right product at the right time, in the right area. It is little wonder, therefore, that only 3-4% of firms are high growth firms (Deakins, 1996). Deakins joins Storey's criticisms of the univariate nature of much of the quantitative research. Deakins reported ten areas.

Finance is one of the most important barriers to SME growth (ACARD, 1986; Metcalf and Porteous, 1989; ACOST, 1990). High technology entrepreneurs have high sunk costs in R+D. They may face high barriers to growth. Despite this, empirical research suggests that high technology entrepreneurs display higher rates of growth (Acs et al, 1987; Rothwell, 1994).

Ability to network. This has been suggested in the case of small high tech firms (Segal, Quince and partners, 1985) but for service sector firms it appears unimportant (Curran and Blackburn, 1994)

Economic environment. The general state of the economy affects deaths, rather than births (Cambridge Small Business Research Centre, 1992). Moreover there are regional differences. Keeble (1994) argues that there is a north-south divide within high-tech firms. The growth of the market is a strong influence on growth (Barkham et al., 1994)

Legal and Regulatory environment. Low taxes are claimed to affect the number of business people, as Deakins reports: *'There is actually no evidence to support the view that taxation levels have a direct effect on effort or willingness to enter entrepreneurship or self-employment'* (1996:197). Theoretically the effects depend on income and substitution effects, which are indeterminate, a priori.

2.9 The Resource-based approach to the theory of the firm

The theoretical insights of Edith Penrose (1959) have become the basis for a new economic paradigm, the resource-based approach (Peteraf, 1993; Teece and Pisano, 1994; Fransman, 1994). Garnsey (1996) argues that Penrose's work provides the only theory to explain and interpret the experience of individual firms. *'There is no recent, theoretically grounded basis for interpreting the experience of individual firms or the aggregate data used to describe small firm growth. Literature reviews return to a single classic, Penrose's Theory of the Growth of the Firm which first appeared in 1959'* (Garnsey, 1996:1). Moreover, Garnsey suggests that the central interest for Penrose, the internal processes in a growing firm, lie unexplored. Garnsey proposes a model of the stages of the growing firm that which emphasises internal processes.

The resource-based view of the firm argues that firms create distinctive internal processes because members work together; and, over time, combine resources in distinct ways to build novel competencies. For example, car-makers' different ways to co-ordinate routines, which persist over time, impact significantly on development costs, development lead times and quality (Clark and

Fujimoto, 1991) Competence, embedded in characteristic ways firms co-ordinate and combine routines, coheres (Teece and Pisano, 1994). Productive systems are highly interdependent therefore changes to one element can affect all others. Innovations that change systems often devastate incumbents in an industry because firms have to create whole new routines. Partial replication can have zero benefits (Henderson and Clark, 1990; Teece and Pisano, 1994).

These processes ensure that the firms organize activity without recourse to the market (Teece and Pisano, 1994). Thus, a nexus of contracts cannot model the firm. Despite some arguments that firms ought to operate quasi-markets (Arrow, 1969; Fama, 1980), the resource-based approach suggests that capabilities, which involve teamwork, cannot be assembled through markets (Teece, 1982, 1986; Kogut and Zander 1992; Teece and Pisano, 1994). Indeed, Coase (1937) pointed out that the firm replaces market arrangements. The resources created must create advantage in markets, however (Porter, 1991). Critics, like Porter, argue that the introspective resource-based view ignores the extrinsic market. Firms create resources; markets value them. But resource-based researchers examined the relationship between the firm's internal skills and its varying circumstances. Firms gain a competitive edge when they exploit internal and external capabilities and develop new ones (Teece and Pisano, 1994). Gamsey adds a systems perspective to the resource-based view to depict a firm as a ceaseless flow, where the firm's activity is '*as a result of capacity to mobilise, convert and exchange resources*' (1996:2). Activity in the form of an input-output system interacts with customers, distributors, suppliers, founders and competitors; adds to the firm's assets. Assets signal a firm's growth (Barney, 1991). The firm's growth prospects depend on its advantageous place within the connections surrounding the firm and its customers (Gamsey, 1996). Thus, the resource-based view has become more extrovert.

Nonetheless, models of the firm concentrate on the firm's capabilities or competencies. Small firms' underperformance reflects poor managerial competence (Jennings and Beaver, 1997). Firms acquire competence through solving problems. Once the firm solves one set of problems, a new set of problems emerges, partly a result of the ability to solve the first set of problems. Periodic crises require new skills and competence to solve (Greiner, 1974). As the firm navigates this sea of troubles, the firm grows. Gamsey characterises her growth phases by the main problem firm must solve. Thus, the first start-up problem is the firm's access to resources. Although the model does show a steady upward path, Gamsey admits that phases overlap and problems repeat, consistent vigorous growth is

rare. Garnsey depicts growth processes reflected in possible growth paths: steady growth, early failure, stability with oscillation and a phase of growth reversal. Each phase has a central challenge.

The first stage is to access resources. Garnsey says *'to embark on a new commercial venture is to undertake a journey without map or fixed destination. The preparatory phase of such a project involves determining direction and the means to travel. Why the travellers are embarking on such a venture precedes our story'* (1996:5). Key relationships in this phase are among founders, with previous associates, and potential sponsors. Garnsey argues that the entrepreneurs' personality, acumen and creativity, and his or her contacts dominate the initial conditions. Contacts and knowledgeable people explain the clusters of start-ups in certain sectors. Knowledgeable people act as an agglomeration location advantage to firms, as do multiple founders (Feaser and Willard, 1990; Oakey, 1995). High barriers to entry and specialised resource needs make this initial stage more challenging. At this stage time is well spent in identifying customers and how the enterprise will meet their needs (Feaser and Willard, 1990) because after the start-up founders have discussed alternatives and decided their products or services they build up sector-specific and project specific knowledge- they are locked in (Garnsey, 1996). Garnsey notes the challenge facing the innovative new firm:

Enterprise often involves recognising the value of resources that cannot be accessed through the market. For example, public domain knowledge may be used as a resource, or talent nurtured, while family and friends provide uncoded contributions. The recognition of opportunities requires awareness of unused resources, sometimes through approaches from users (von Hippel, 1988).

Potential users may need to be encouraged to realise that their needs could be met in new ways.

While firms are founded on the basis of both market pull and technical push, the availability of a market position to fill provides the more secure base for a new firm' (1996:6).

Innovative firms can lock the innovation within the firm and the firm and innovation, for a time, share the same fate (Rosenberg, 1994). Garnsey suggests that from being aware of profitable opportunities from research to their eventual exploitation may take twenty years. During the pre-start phase search processes dominate. It is pre start-up stage, 'before taking the plunge' upon which many small business courses seem to concentrate (Woodcock, 1988; Barrow, 1995; Stokes, 1995; Williams, 1996) presumably because the firm once up and running is locked-in to firm-specific and sector-specific knowledge. The resource-based theory pioneered the argument that firms compete through

exploiting and developing internal and external firm-specific capabilities (Penrose, 1959; Teece, 1982; Wernerfelt, 1984; Teece and Pisano, 1994). The discussion here tends toward the innovative new firm but all firms become locked-in to their sector and capabilities and indeed their history (Teece and Pisano, 1994). The resource-based view seems to fit the more practical advice given to entrepreneurs. Thus, the potential entrepreneur is advised to search carefully to pre-empt lock-in 'because early choices shape future options' (Garnsey, 1996:5). Arguably the key resource at this stage is finance (Garnsey, 1996)

Financial institutions are central to the processes of firm start-up. Institutional and local arrangements for new venture support influence Aggregate funding (Garnsey, 1995) and as financial institutions select ventures to back they enable the successful firms to achieve growth (Schumpeter, 1928; Nelson and Winter, 1982). At this stage successful refers to the ability to raise finance.

The ability to raise finance depends upon perceptions both of the firm's founders and outsiders. Penrose (1959) argues that the entrepreneur or owner-manager's perceptions of its environment are the opportunity set for the firm. Thus, strategists have long debated questions of appertaining to what business a firm is within, for example railroad or transportation. As important is the perception of the business by outsiders, particularly by bankers. Start-ups have a particular difficulty to raise bank finance because they lack a track record. The business plan is in some sense an attempt to establish credibility with lenders (Woodcock, 1988; Barrow, 1995; Stokes, 1995; Williams, 1996), although lenders may look for other factors that they associate with a remunerative firm. Section 2.7 reports research into factors that bankers use to determine lending decision. Whatever impression is given to the outside world internally the firm has to originate means and routines to run the firm, particularly to deal with the 'resource conversion process' as Garnsey (1996) calls it. She explains the problems associated with this stages as follows:

...the resource conversion process has to be set up anew without precedents or accepted ways of proceeding. As the group learns to save time and avoid early mistakes, routines and procedures form through trial and error and a division of labour with specialist roles emerges. Calculating what resources are required without incurring excessive overheads or crippling shortages involves steering a narrow course. The initial mobilisation phase leading up to resource generation usually demands major effort, and succeeds only where there is mutual commitment. The effort exerted by members of close knit groups, struggling against the odds to make a project succeed, is legendary (Kidder, 1982). The very shortage of resources in these circumstances may provide focus and direction where there is a shared sense of purpose' (Garnsey, 1996: 8).

Indeed, one might note that new products in established firms need new resource conversion process. Indeed Teece and Pisano (1994) argue that dynamic capabilities are a higher level set of managerial competences that enables firms to create new products and processes, and respond to changes in the demand for their products. Organizational structures and managerial processes, rather than balance sheets, determine firm capabilities (Teece and Pisano, 1994). In if the firm's capabilities are hard to replicate then the firm has strategic advantage. In this respect the theory is similar to Kay's (1993) identification of architecture as a source of competitive advantage. Thus, Kay saw the architecture of the methods used by Liverpool football club in the 1970-80's as a specific source of competitive advantage. The architecture, however, may be better described as firm-specific capability developed from the processes developed under the leadership of its famous managers Bill Shankly and Bob Paisley, since slowly dissipated.

When the management has refined these processes the firm has a platform for further growth (Penrose, 1959). The management effort expended in the developing efficient ways of doing things is free to concentrate on other factors. Presumably the more efficient processes release free cash-flow to support further growth in addition. This might infer that one method to improve growth in the firm is to help establish more productive routines. Should PBAs look to free resources for growth by improving firm-specific capabilities? Garnsey (1996) suggests that at this stage the firm, having built up tacit skills establish key relations with suppliers and customers. At this stage the firm can 'lurch from underproduction to overproduction as their members miscalculate resource needs in relation to customer and supplier behaviour' (Garnsey, 1996:9). With inadequate feedback systems

dynamics suggest the instability, verified by empirical data (Storey et al., 1987; Cambridge Small Business Research Centre, 1992) Growth amplifies internal pressures for further growth as positive feedback in dynamic systems (Arthur, 1990).

Because sources of instability differ in each sector, firms require sector-specific solutions, which constrain growth. Sector-specific knowledge and firm-specific routines constrain the growth of the firm because the growing firm has to assimilate outsiders. Besides the costs of recruitment, people recruited to satisfy the firm's growing demands need to learn to work within the firm's routines. The existing firm members must teach the newcomers those routines, which distracts firm members from production. Finally recruits have to learn to work together. Staffs with experience of working with one another are rarely obtainable on the local labour market, though London's merchant banks went through a spate of poaching teams of dealers in the 1990s. Consequently teamwork demands constrain the pace of growth (Penrose, 1959; Gamsey, 1996) The management capability to integrate newcomers also constrains growth.

If the pace of growth is constrained, the size the company grows to is what industrial economics call the minimum efficient scale (Devine et al., 1985). Industrial economics suggests that production technologies exhibit scale economies, particularly mass manufacturing technologies. Increased production reduces average costs. Technology can alter the minimum efficient scale (MES). In the last decade, flexible production methods have reduced the MES with the arrival of mini-mills, micro-computers, telephone banking, for example. Small firm's niche marketing strategies are another attempt to deal with the minimum efficient scale problem. In a niche market or focused on a particular set of customers (Porter, 1980) small companies can avoid growing to the minimum efficient scale and compete on the basis of distinctiveness, and survive with higher costs than a mass producer but charge higher prices and accept lower profits. Firms within a niche market may find their scale limited by the market.

The resource-based theory posits a second type of economy - growth economies. As the firm-specific routines improve so does firm productivity and costs fall. Besides, the now larger firm's ability to reduce average costs by spreading fixed costs over a larger output; the improvement in routines reduces costs. For example, Peters and Waterman (1982) sight the examples of Dana Corporation where Rene McPherson took over destroyed the policy manuals and let his employees improve the firm's routines. Over time routine improvements increase capability and efficiency.

At this point the firm is viable. Firms can inhabit a 'comfort zone', and become a 'lifestyle' firm. Risks involved in mobilising for growth increase the likelihood that the firm remains in the 'comfort zone'. When the environment changes, this comfort zone can be anything but. The growth plateau can precede growth, merger, decline or failure (Garnsey, 1996).

The firms that grow rapidly, although unusual (Storey, 1994), find limited appeal in a low growth 'comfort zone', and/or win a major contract or exploit favourable market opportunities (Garnsey 1996). The sustained growth firm needs a strategy. *Good fortune requires an appropriate response if growth generation is to follow. Insofar as there is consistency and purpose in such responses, strategy is emerging though it may not follow predetermined tracks*' (Garnsey, 1996:11). Moreover, staff taken on to ease shortages may find themselves under-employed as routines improve and companies reap economies of growth (Penrose, 1959).

In addition, key relationships established in earlier phases promote growth and influence the firm (Porter, 1980; Garnsey, 1996) Funders may realise their investments. Customers may demand more products or demand new products. Distributors may threaten to stock alternative products. *Key relations of interdependence, initially a source of support, may narrow options, preventing the pursuit of a strategy of steady paced growth conducive to resource synchronisation*' (Garnsey, 1996:12). Thus, the firm can grow despite the orientations of the owner-manager (Hughes, 1998).

And the growing firm must delegate. The failure of the management to delegate is a key defect within a small firm (Argenti, 1976). The pressures for further growth combined with the existing production require managers to spend increasing time on networks of alliances. Alliances can help organizations access complementary assets and reach new markets. These local networks confer agglomeration economies on firms (Camagni, 1991, 1995). Alliances cost management time, however. The growing firm's management needs to attend to the interdependent relationship within its markets and delegate other activities.

Paradoxically, within a dynamic system, rapid growth can trigger growth-restraining elements. Employee motivation at the growth plateau can decline as individuals do not see their influence on outcomes or staff may suffer 'burn-out' (Kotter and Sathe, 1978). With the increased size of the firm comes an increase in complexity.

Complexity's effect on management played a central constraining role in Penrose's theory. With a larger size firm, the rate at which managers can assimilate information constrains decision-making. The management's must build their experience and authority and create the firm-specific competence. The use of consultants can help but not replace the management team's ability to make decisions. Indeed this transition seems shows similarity to the idea that firms need to consolidate, to become more bureaucratic after they employ a certain number, often fifty, of people (Churchill and Lewis, 1983; Agar, 1994). Managing a complex organisation slows decision-making. Penrose (1959) believed that the key growth constraint is the managers' difficulty in managing a complex organization.

Rapid growth constraints can build steadily as a niche market is saturated and the growth in orders slows down. Unsettled climates value the ability to reconfigure the firm internally and externally (Amit and Schoemaker, 1992; Langlois, 1994). Uncertainty favours firms that enthusiastically adopt best practice and surveille markets and technologies (Teece and Pisano, 1994). Firms can bench-mark to recognise best practice (Camp, 1989).

On other occasions the reversals can occur suddenly. Garnsey (1996) characterises growth reversals as fluctuations, bottlenecks and shortages. Warnes (1984) characterises rapidly growing firms going through the 'Death Valley curve' where cash haemorrhages from the company. The resource requirements for growth, in particular cashflow and capital are acute. All the firms that experience the growth phase need to consider the effects on cashflow and profit. Warnes (1984) suggests that managers must attend to profits and cashflow, or risk liquidation. Perren, Berry and Partridge (1999) suggest that firm that grow to over ten employees establish systems of control concentrated on cash but they calculated break-even also for their businesses. Control became formal as the owner-mangers developed the business. All aspects of the growing firm are interconnected and discontinuities within complex systems create growth crises (Garnsey, 1996).

Growth crises occur within the firm's dynamic system. Shortfalls and shortages within complex systems can switch to excess stockpiles. Unaddressed problems build up precipitating crises. Breakdown in relations with funders and suppliers because the pattern of suppliers, customers, distributors and competitors all change from that at start-up. Again the firm must address the problems and build their competence. Crises highlight new skills. (Garnsey, 1996)

In addition, a growth reversal phase places extra demands on management. The growth reversal crisis requires managers to respond to immediate problems. In addition, the business requires future planning to recover from the problems. Managers often find the balance of immediate and future problems difficult. Managers can often find themselves dealing with immediate problems - fighting fires. Indeed, fighting fires can be exhilarating. The most difficult crises are those where the firm's basic assumptions are questioned, often resulting in key figures leaving the firm (Argyris and Schon, 1978)

When key people leave the firm they take tacit knowledge with them. The typical response is to introduce job descriptions and roles but firms that inaugurate more routines into the company can reduce motivation. Growth reversal strains the company. Firm members leaving the company can produce spin-offs, which is often the case in innovative locations (Oakey, 1984). In the growth reversal phase, competition can increase. Industry concentration matures, which erodes the firm's profit margins (Peteraf, 1993).

Acquisitions are quite likely at this stage. Firms have a track record of early growth. Owners are aware of small business' oscillating fates. Successful founders may be tempted to sell, then found a fresh undertaking.

For a firm to sustain growth the firm needs to expand market share, or supply a growing market (Garnsey, 1996). In addition, sustained growing firms provide opportunities for their staff and broaden their product and customer base (Hughes, 1998). Highly specialized firms must develop complementary assets (Teece, 1986).

The relatively few firms that overcome growth reversal processes or Warnes' (1984) 'Death Valley curve' can build reserves. Reserves might come to the firm through take-overs where the ex-independent firm accesses the resources of a parent. Although Teece and Pisano (1994) stress that conglomerates offer few efficiencies because the routines developed by the firm, its competences and unique organizational skills remain the same. Indeed core competences can become core rigidities (Leonard-Barton, 1992).

Beyond the phases of accessing resources, mobilising resources, generating resources, reinforcing growth, reversing growth and accumulating lies the maturing firm. At this point the firm follows no

pattern argues Gamsey (1996). Growth and declines may continue, past solutions cause present problems and rigidities can set in.

Gamsey (1996) argues that early growth processes are universal to firms starting up but are overlooked in the literature:

'Growth phases are symptoms of the dominant problems to which growth processes give rise and vary in duration and extent of overlap. It is the early growth processes that are universal, not their phase manifestations. A firm must access and mobilise resources in order to generate further resources if it is to become a system of activity with the potential to grow. Growth beyond the capacity to be self-sustaining has its own problematic and sets off negative feedback effects which have to be overcome if growth is to continue; growth setback processes may be such as to create a distinct reversal phase' (1996:19).

The relative strength of the growth-reinforcing and growth-constraining effects determines the firm's ability to accumulate resources (Gamsey, 1996).

The resource-based approach to the firm concentrates on the internal processes within the firm; the industrial economics and strategic approach concentrates on the relations outside of the firm. Both can learn from each other (Teece and Pisano, 1994). The firm develops knowledge as it the firm's external relations are used to achieve the market position that facilitates growth (Loasby, 1993). There are chance elements involved in the process (Arthur, 1990) but what events are significant and what are not depends on their effect on the access to resources, whether they alter key relations, and whether the events change participants outlooks.

The resource-based theory of the firm builds upon the ideas of Edith Penrose (1959). Penrose believed that the constraints on the growing firm were not just market constraints but that internal constraints were significant. Gamsey (1995) argues that Penrose's view is consistent with a systems theory; moreover, others have suggested that internal firm-specific competences, routines and organization, explain the difference in productivity between firms (Coase, 1988; Teece and Pisano, 1994). The way the new start-up firm access resources and develops its capabilities through the predictable stages through which a growth (Churchill and Lewis, 1983) firm form the basis of a

resource-based theory of the early growth of the firm (Garnsey, 1996). The challenges that the theory predicts suggest a balance of growth reinforcing and growth constraining forces determine the firm's growth.

2.10 Empirical Studies of Small Firm Growth

The UK ESRC conducted a major research programme in the early 1990s led by, and collated in, Storey (1994). He believes the performance of SMEs is a combination of three factors; the owner, firm and strategy. Lets look at these three areas in turn. Remember these specific factors combine to produce the performance of the SME. First, consider research on the owner/manager.

A small company operating in a more uncertain environment with more change and less cultural inertia points to a much greater role for leadership in the SME sector. SME managers take risks in uncertain conditions, making judgements in complex, novel and often ambiguous situations. As entrepreneurs they play a pivotal role in the economy. They are innovators rather than inventors and how they lead their organisation is important. There are a number of empirical studies suggesting qualities of the successful SME manager.

Storey reports up to 15 factors affecting the SME manager, including, the motivation of the manager, her age, experience, education, social marginality, gender. The significant factors are motivation, age, prior experience functional background and education (Storey, 1994).

Studies on the entrepreneurial personality notably by Chell et al. (1991) matched twenty-six factors including some of the factors in the univariate studies reported in Storey. Their study highlights alertness to opportunities, pursuing a vision regardless of present resources and being high profile. Their data came from personal business advisors (PBAs). Other factors important to growth were: wanting to grow, the age of the owner, age of business, and being a founder.

Thus support agencies need to improve the management skills of entrepreneurs to enable them to (i) exploit opportunities and (ii) cope with increased pressure on resources. As Deakins notes:

We still know very little of how entrepreneurs are able to react and the process of change involved in growth. This paucity of knowledge and lack of understanding is a reflection of the focus of previous research, which has been quantitative, attempting to identify factors that influence growth. Since growth is a complex process, involving the application of subjective management skills and a learning process for the entrepreneur, we cannot begin to understand this process without further information from qualitative research methods. There is a need for longitudinal and preferably ethnographic research that tracks entrepreneurs, firms and their growth patterns over a number of years. For example, we do not know that extent to which entrepreneurs are able to learn from their experience, how they adapt to changes and what strategies are adopted to achieve growth.

In addition, many interventions by support agencies are not designed to encourage entrepreneurs to learn from their experiences to cope with problems that will enable them to unlock potential and achieve growth (1996:198)

SMEs and entrepreneurs make an important contribution to the functioning and development of the economy. The performance of SMEs depends upon the capabilities of the SME manager, their organisational ability, and the strategy they adopt. Further, measures of performance and potential performance are complicated by the need to understand the whole firm and its capabilities. Thus any assessment is likely to use heuristic methods to make judgements about the performance of the firm. These heuristics might be subject to biases.

Pugh (1971) defines organisational theory as the study of the structure, functions and performance of organisations and the behaviour of groups and individuals within them. The theory has a number of classic texts that consider performance starting with the structure of the firm.

Burns (1963) describes two structures that are polar opposites; mechanistic structures and organismic structures. Relatively stable conditions favour mechanistic structures and changing conditions favour organismic structures. The mechanistic structure is akin to Max Weber's

formal bureaucracy. The firm organises in a hierarchy, with tasks limited by superiors; the mechanistic structure has defined boundaries that tell employees what are his or her concerns and what are not.

Organismic structures cope with changing environments. Jobs lose their formal definition and are continually re-defined through interactions with others and through solutions to problems. Communication runs across the organisation as much as up and down the hierarchy. The boss is not the source of knowledge. In organismic structures people perform tasks within the knowledge of the overall purpose of the organisation. One of the requirements of the UK's Investors in People programme is that employees know priorities of the organisation. Organismic structures are generally 'flatter' with less management layers.

For fast growth firms you would expect to find less formality and flatter structures with more of a network structure of communication and control, requiring the SME manager to devolve responsibility. Argenti (1976) sees an autocratic chief executive unwilling to take advice as a key defect of the small firm. Deakins (1996) agrees.

However, a major caveat to the appropriateness of organismic structures for fast growth small firms is technology. Studies by Woodward (1958) found that the structure of the firm depended to a large extent on the technology the firm used. Woodward studied 80 firms. Technology was defined by the complexity of the production process: unit production, for example a bespoke tailored suit, was the simplest technology; the most complex was continuous process technology, liquid gas production for example; mass production was in the middle range. The study found that differences in organisational structures mirror differences in production technology, and organisations change with changes in technology. Changes in production technology are inevitably accompanied by organisational changes.

Woodward found no significant relationship between the size of firm and the system of production. There were firms employing few people with the characteristics of large firms; a well-developed management structure, highly paid staff in a wealthy organisation. In particular small process production firms who employed less than 500 people had large firm characteristics. The ratio of management staff to total numbers employed increased as technology advanced. The size of the management groups appears a reliable measure of bigness

rather than total employees. Further Woodward found that the control of the chief executive and supervisor and layers of authority increase with firm size within each separate group.

The organisation was more flexible at both ends of the spectrum of technological complexity. Unit production and process production defined duties less clearly.

Success appears related to averageness. The study graded twenty firms as outstanding successful. Their organisations were close to the median for each group. Supervisors in successful unit production firms oversaw 22-28 workers; the median for this group was 23. Supervisors controlled 45-50 workers each in successful mass production firms; the median was 49. Supervisors controlled 11-13 workers each in successful process production firms; with a median of 13. In addition, firms graded below average *'in most cases diverged widely from the median'* (Woodward, 1958 reprinted in Pugh, 1971:71). The medians conform to the patterns of organisation advocated by management theorists.

The technological sophistication of the firm has a large influence on the structure of the organisation. Technical change will change this structure. De-layering a firm will not necessarily improve its competitiveness. In the steel industry mini-mills can be successful with three layers of management. However, that does not infer that US Steel (USX) will be more successful with three layers of management. Blueprints of the successful firm cannot ignore the sector and production technology. As the quotation from Aaronovitch reveals, the advantage of being a large firm may not be in technology, or indeed in production at all. You cannot categorically argue that fast growth requires organismic structures without considering technology.

Business planning methods including competitor and market analysis are additional capabilities for the firm to exploit opportunities and grow. The growing firm needs strategic management says Deakins. Yet as he readily states there is *'no research into the quality and effectiveness of many business plans that are produced'* (1996:223). He nevertheless believes that:

If as a start-up entrepreneur you adopt planning policies that are based on sound research and careful consideration of strategy this will have benefits through out the life of the business...one of the reasons for these high death rates has been insufficient thought and time given to properly planning the strategy of the new firm...A good business plan should 'hang together'...different section should be interconnected...underpinned by careful research, by knowledge of the market opportunity, and that the assumptions and research should underpin the financial forecasts (1996: 239,240)

North, Leigh and Smallbone (1991) examined 293 independently owned manufacturing firms employing less than 100 workers in 1979. They found surviving firms were older and larger than non-surviving firms, although these included sectoral differences. They found firms expressing a desire to grow in 1979 had lower failure rates than those who desired to contract. Subsequent research by the authors found those firms that adapted survived. Five types of adjustments are critical to the survival of the small firm. (Smallbone, North and Leigh, 1992)

- product and market adjustments;
- production process adjustments;
- employment and labour process adjustments;
- ownership and organisation adjustments;
- location adjustments

Active firms that made adjustments were more successful at both surviving recessions and increasing employment. More active market developments, identifying new market opportunities and increasing the customer base are the key to achieving real growth. Newman (1997) believes that a more adaptive culture requires leadership

A study by Reid et al. (1993) confirms the importance attached to increases in the customer base. To survive companies can follow quite conservative marketing strategies, but to both survive and prosper the firm must manage the product profile, improve the product range and

the quality of their products. Declining firms took fewest steps to improve their competitiveness and when they did they concentrated on cost-cutting rather than quality improvements. The capability to make adjustments to the firm, the environment then implies some strategic management capability.

The second survival characteristic of small firms was internal organisational adjustment. High performing firms were associated with top management delegating responsibility and freeing themselves from operational decisions. This is a key task for the SME manager employing between 10-20 people.

The Smallbone et al. research found significant sectoral differences in survival and growth. The survival rate was 88 per cent in printing, 24 per cent in clothing, and 35 per cent in toys and games.

The key message from the Smallbone et al. research is the need for flexibility. Growth forces the firm to adjust to internally and externally driven change, and it seems unlikely that an inflexible SME manager will be at the helm of a highly successful SME. Organisation theory sees the SME manager leading by having high expectations, involving their employees, as a coach within a network of workers if the technology allows, not a rigid hierarchy, all within a fast changing environment.

Whilst the organisation may be flexible and its manager a coach, to compete in the market firms need a strategy. One might argue that unless a minimally successful strategy is in place there is little likelihood of there being an organisation to manage.

Empirical work reported in Storey (1994) reports organisational factors under the heading of strategy, whether the firm makes market adjustments or plans, or innovates in new products. Successful strategies included being technically sophisticated, developing new products with low customer concentration and exporting. Exporting may be a reflection of success rather than a strategy for success. Economist arguments about comparative advantage suggest that more efficient firms be in the exporting group.

There is an association between exporting firms and growth pointed out in Storey (1994). This might be due to an ability to exploit new markets. Firms that achieve growth do so through markets outside of their initial area and overseas (Curran and Blackburn, 1994). Another set of

managerial skills is needed for this, yet even with a willingness to export additional resources and insurance requirements can deter a potential growth entrepreneur from exporting (Deakins, 1996)

Age of Firm and Lifecycles. Smaller firms grow more quickly (Reid et al., 1993; Barkham et al., 1994; Hart and Oulton, 1996) and younger firms grow more quickly than older firms (Reid et al., 1993). There is a lifecycle approach to small firms developed by Churchill and Lewis (1983). Based on the product lifecycle this approach suggests that there are five stages of a firm's development. (i) Start-up - the firm is cash-poor, with limited markets and an individual management style. (ii) Survival - the firm manages to survive in its niche market. (iii) Growth - the firm reacts quickly to market opportunities that drive this fastest growth period. (iv) Consolidation - growth slows the firm is less entrepreneurial and takes fewer risks. (v) Maturity - opportunities decline, growth becomes decline and the firm sheds labour and may even eventually fold. There are many criticisms to be made of these lifecycle models (Storey, 1994). Growth is undoubtedly more complex than this. Moreover, North and Smallbone (1994) note that mature SMEs are capable of growth. Growth comes in incremental surges rather than taking a smooth upward path. The model may caution against an initial dash for growth by an SME.

Strategy is taken to mean competitive strategy, how the firm places its product and sells it. What is the emphasis of the product? This is a narrow definition of strategy. What has become a burgeoning area of management literature is strategic management. Strategic management would probably encompass all the issues considered so far plus the competition issues examined here.

Competitive strategy positions the product within its market. For economists, competition has traditionally focused upon price competition. But in the 1930's both Chamberlain in the US and Joan Robinson in the UK independently came up with a model of 'monopolistic competition' where competitive strategy depends upon differentiating one's product. The firm stops being a price-taker and can now set its output to gain a certain price or vice versa, though if the firm targets price it must accept the corresponding output. Price becomes greater than marginal cost and the firm earns economic rent. For economists, the study of competitive strategy comes under the heading of rent-seeking activity, though for the individual firm this earns economic

rent for the economy as a whole it is a 'bad thing' distorting competition and the operation of the price system.

Porter (1980, 1985) considers five forces that strategy has to work on: supply, potential entrants, barriers to entry, consumers and substitutes. Strategy mediates between these forces and the firm. Taking account of competitive response is important for the small firm. Storey (1987) found poor performing firms know least about their competitors. The supply chain is a potential source of advantage that has attracted interest. Japanese firms have used Just-In-Time as a method to achieve advantage. Potential entrants to an industry have attracted economic theorists to discuss entry-limit pricing (Sylos-Labini and Bains developed well-known entry limit pricing models). When barriers to entry are high firms can earn higher economic (monopoly) rents. Firms might seek to increase barriers to entry by for example branding. Customer relationships are proving to be a particular feature of competition in the UK supermarket sector where different companies have copied loyalty cards. It is a truism of business that repeat custom makes or breaks the business. Finally substitutes for the product or service can develop. Margarine became a substitute for butter. In Brazil they developed Alcool as a substitute for petrol. Your industry may be vulnerable or this may be the opportunity for which a flexible organisation awaits.

Porter (1980, 1985) believes there are only three generic strategies a firm can follow, cost leadership, differentiation and focus. Cost leadership - low cost producers are often mass producers. In an industry with a few large firms and a competitive fringe cost leadership is the domain of the large firm that can spread overheads over large production volumes.

The pursuit of cost leadership is a poor strategy for an SME. This appears to be sometimes unrecognised by SME managers themselves. Many small firms see price as crucial and are reluctant to raise prices. Reid et al. (1993) found many SMEs achieving rates of return at 3-4 per cent lower than prevailing real interest rates.

This leaves the SME two generic strategies: differentiation, by providing what marketing people call a unique selling point 'USP'; and focus, tailoring their good or service to particular customers. Quality is a part of differentiation, enabling the firm to charge a premium price for its good or service. Porter warns firms to be clear about what strategy they are following

because the worst place to be is 'stuck in the middle'. Irwin (1997) reports research that suggests there is:

a super league of medium-sized fast growth companies which have adopted a strategy of serving niche markets, increasing turnover by selling more to existing customers, responding quickly to market need, by careful and sustained control of expenditure and by seeking to raise profitability rather than chasing turnover for the sake of it (1997: 322)

Mintzberg points out that events have superseded these three generic strategies. Japanese manufacturing firms by pursuing quality have ended up with cost leadership, through 'Total Quality Management'. Differentiation and cost leadership ends up as two sides of the same coin rather than a strategic choice. Mintzberg et al. (1995) believes you concentrate on areas of strategy, on image, product design, quality, support and differentiation. He talks about the distinction between intended strategies, unrealised strategies, deliberate strategy, emergent strategy and realised strategy. Strategy is an outcome of a process and a process itself. C.K. Prahalad (1996) sees strategy as process of internal governance. He believes '*almost all traditional views of strategy have been very elitist. The assumption is that top management develop strategy and everyone else implements it.*' He thinks this model of strategy precludes change and reinforces the status quo. Strategy for Prahalad is seizing all the opportunities that available to a company.

If you think about strategy as revolution, strategy as discovery, strategy as innovation, strategy as changing industry norms and industry patterns, then you must acknowledge that no monarchy has ever fermented its own revolution. In other words, senior management do not have a great propensity for change.

He believes you create forums within organisations where more contrary individuals can meet to create strategy. Prahalad sees strategy as firstly, a process and secondly, too conservative.

Herbert Kaufman (1991) is more critical of strategic choices. He believes the survival of some organisations for great lengths of time is largely a matter of luck. Moreover, he suggests '*Organisations by and large are not capable of more than marginal changes, while the environment is so volatile*

that marginal changes are frequently insufficient to ensure survival. (cited in Peters, 1992: 617) Changing strategy is not a real option for organisations.

2.11 Much SME research is difficult to use.

Chaston and Mangles (1996) claim that much SME research is difficult to use as a predictor of performance. They adopt the view that common characteristics shown in fast growth firms reflect the capability of the organisation, a view shared by Blundell (1996). Chaston and Mangles used four studies to show the key characteristics of the firm, Coopers and Lybrand, 1994; Burns, 1994; Brickau, 1994 and Trading 1990. These characteristics are from the UK, Germany and New Zealand. The characteristics they summarised were: the ability to identify a market niche, and exploit it through superior quality, development of a formal business plan, adequate finance, new product development, personnel management, quality management, optimising productivity and the use of IT and management information. Using this list they surveyed manufacturing firms with sales of between 100 000 - 3m per annum.

Using discriminant analysis they found that firms wishing to increase growth need to concentrate on:

upgrading any identified capability weaknesses in the areas of employee productivity, new product management and product superiority and ...upgrading organisational structure [to optimise employee productivity] measuring customer expectations and identifying changing market conditions (1996: 4)

Firms already growing that wish to accelerate their growth have slightly different areas to concentrate on. Measuring customer quality is most important followed by new product development and more rapid development of new products.

Chaston and Mangles conclude that firms should adopt a balanced approach to increasing growth. They cite one engineering firm that implemented a broad range of actions including restructuring, investment in new process technology and gaining greater customer participation in new product development. Grant aid was forthcoming from the UK government Investors

in People programme. The authors report that in twelve months the resulting upswing in orders had resulted in the creation of more jobs in the firm.

Secondly, firms planning improved performance need to emphasise differing capabilities depending on whether they are experiencing declining revenue, zero growth, or revenue growth. Those growing at a lower rate should use a different decision rule from those growing at between 11-30 per cent p.a.

Chaston and Mangles used the characteristics of growth firms to indicate capabilities, and tested them on manufacturing firms. Measuring capability in non-financial areas such as customer expectation is what Eccles (1991) has called the performance measurement manifesto.

Olson and Bokor (1995) examined the interrelation of strategy and marketing. They sampled 91 of the fastest growing privately held small businesses in the United States, which were eight years old or younger, from the Inc. 500 in December 1987. *Inc* ranks businesses on sales growth over a five-year period. Firm's sales increased from between 526 per cent to 52244 per cent.

They conclude that the interaction of formality in planning and product service innovation effects the performance of small rapid growth firms (flyers). Formal planning represents strategy process and innovation represents strategy content. The authors also suggest: *'certain contextual factors such as CEO characteristics may impact the nature of this interaction.'* (1995: 41) However, the explanatory power of their model was very low with an R² of just .089. Further 50 per cent of their sample of high flying firms had no formal business plan and yet they made it into the list of the fastest growing small companies in the US. This suggests further research may be fruitful into this area. Many successful firms use a business plan but many unsuccessful firms also use a business plan. It may be that successful leaders not using formal business plans have a vision of their company and understand the business very well (Chell et al., 1991)

Lothian (1987) in a Chartered Institution of Management Accountants (CIMA) study writes *'non-financial measures can better fulfil the diagnostic function of performance measurement...because they measure productive activity directly, non-financial measures may better predict the direction of future cash flows.'* (1987: 6) Performance measurement concentrates on measuring the capabilities and outcomes already noted like customer satisfaction. Schmenner (1995) thinks *'...if a company still utilises the standard financial after-the-fact measurements it is out of touch.'*

Performance measures are not neutral. They are effective in focusing the management's attention on what is important. They also provide a strong signal to others in the organisation. In this light they may have unintended negative consequences for strategy (Smith 1993) The famous use of the 'body count' in the US war in Vietnam is an example. Performance measures will affect and be effected by strategy.

Kaplan and Norton (1993) developed a balanced scorecard. Their idea is to cascade the mission of the organisation into measures of performance showing whether the organisation is achieving its aims. The process is top-down, and rather linear with little feedback in itself. The scorecard shows the balance of organisation issues, financial outcomes, production and customer issues that together enable the firm to carry out its mission. Performance measures measure how effectively a company implements strategy; does this preclude comparisons of firms unless they use an identical strategy in an identical industry?

For example, cost leadership strategies require performance measures that effectively control costs. Khandwalla (1972, 1973) found more managerial control procedures when competition intensified. Other studies show links between competitive advantage and managerial control systems (Simons, 1990)

Having said that the different strategies lend themselves to different performance indicators, many facets of organisational life are similar. The idea of benchmarking assumes firms in different circumstances have much to learn from each other's performance. Eccles (1991) believes that although different businesses with different production processes and different strategies need different information to make decisions there are critical outcomes that every firm has in common.

Simons (1990) studying large firms believes that very similar management control systems represent all organisations. The difference lies in the ways in which top management use controls, and which require attention: *'How and why top managers choose to personally monitor certain management control systems and to delegate other tasks to subordinates'* (1990: 135) show the concerns of the management.

Cranfield Institute of Management evaluated manufacturing excellence using non-financial performance indicators. Eight performance indicators measured the success of engineering companies.

Schmenner (1995) asked transnational managers what performance capabilities ought to be measured and which were. He identified three groups of measures, gaps, false alarms and a group 'in the middle'. Gaps define areas that ought to be well measured but were not. False alarms measured areas that now firms should not measure. The group 'in the middle' were measured and ought to be they were: integration with customers, overhead cost reduction, volume flexibility, throughput times, quality and computer systems. False alarms were machine efficiency, labour efficiency and direct cost reductions. The gaps were in new product introduction, customer satisfaction and employee involvement. Interestingly the gaps are similar to Chaston and Mangles recipes for growth. So similar measures might measure performance across most firms. Investors and financial analysts must rate performance and 'pick winners'. Financial numbers are not enough to give the answer to the crucial questions of management quality.

To conclude, the ability of the SME manager, and the capabilities of the organisation and the organisation's strategy all interrelate.

First, the SME manager brings experience, capability, personality and judgement. Age and experience may estimate capability. The motivation, the reason they have become an SME manager is also measurable and important. Leadership quality is important though perhaps less easily measured

If the SME manager is to be at the helm of a 'flyer' then the key task is to, create, lead and sustain the organisation. The difference between a small company and a large one is simply the size of the organisation. The prosperous SME manager creates an adaptable, professionally managed organisation, institutes a distinctive winning culture, a Wal-Mart way of doing things and is 'lucky' in the pursuit of a differentiated or focused strategy.

Thus growth *'occurs from a complex interplay of factors that will include variations in all the market and managerial elements'* (Deakins, 1996:197). The need to adapt to change, develop staff, exploit new opportunities, and cope with changing environments are mentioned by ACARD (1986) and

ACOST (1990). The key role of management capability is emphasised by Barker et al. (1993): *Some of the most difficult problems facing the growing firm will relate to its management needs. The monitoring, co-ordination and control of its activities in a growing firm will require the utilisation of increasing amounts of information, placing an increasing burden on management* (1993:17).

Warnes (1984) argues that many prominent business failures during the 1979- 1982 recession in Britain were unnecessary. They happened because the company managers failed to understand enough about cash flow, gross profit margins and breakeven.

Warnes describes company doctoring, which in Garnsey's (1996) terms is coping with growth reversal. Essentially his message is to force breakeven point down to below 70 per cent of capacity. He describes a picture of a troubled company in 1974 that revealed a breakeven point where its breakeven point (fixed costs/gross margin percentage, where gross margin percentage is the gap between sales and variable costs expressed as a percentage) of 140%, which also represented twice the market size! His answer; force margins up and accept a lower turnover. If the gross margin percentage (GMP) increases from 3 to 6 per cent, with a turnover less than half that previously, then the firm is more profitable. For companies in trouble Warnes suggests:

'The first objective is to get turnover to drop like a stone...As turnover plummets, given good control, large sums can be shaken out of stocks and debtors...This provides cash: (1) to reduce creditors (2) to finance however many months losses occur before the company begins to come into profit (3) to refurbish, overhaul and upgrade plant and equipment, rebuild and modernise the production line, etc. (4) To embark on an extensive R&D and product redesign programme' (1984:152).

Turnover for Warnes is fools gold. Instead firms should aim to breakeven at less than 70 per cent of their capacity. Firms with gross profit margins below 25 per cent await bankruptcy. Perren, Berry and Partridge (1999) trace the changes in management information when a firm grows from inception to beyond a micro-enterprise (less than ten employees). In a study of four successful service firms, they found that the owners' fears of business failure motivated them to establish systems of control. Their control systems concentrated on cash but they calculated

break-even for their businesses. The study deliberately chose successful businesses and demonstrated their emphasis on control. As the business developed, controls became formal.

Considering start-up businesses Warnes (1984) argues similarly that scaling back will extend the life of a company. Consider the table below.

Table 11 Scaling Back - monthly, £000's

	(1)	(2)	(3)	(4)	(5)
Overhead say	10	5	5		
Gross Margin percentage	40%	40%	75%		
Breakeven	25	13	7		
Actual Sales	5	5	4		
Profit/(loss)	(8)	(3)	(2)	(1)	b/e

Source: Warnes, 1984

Given that many larger companies tend not to trade with small companies that are in business for less than three years because most fail, the small company needs to prolong its life. Warnes agrees with industrial economists when they argue that small firms need to reach their minimum efficient scale quickly (Devine et al., 1985; Audretsch, 1995). If the company in table 11 starts with £50,000 capital at losses of £8,000 per month it will run out of cash after six months. Cutting the overheads extends life to eighteen months, better but not enough. Thus forcing up margins will extend the life to over two years. With sales of just £5,000 per month the company can, at 75% GPM, become more profitable with two-thirds of the previous months sales. The message is clear. Companies can afford to lose custom to defend their profit margins. Warnes seem to concur with the industrial economics view that small firms need to make their minimum efficient scale quickly (Audretsch, 1995).

High profit margins may not reflect price increases, however. Reducing direct sales costs, reducing material content or improved production methods all improve margins without price increases. Indeed, Warnes decries manager's obliviousness to productivity increases effect on profits. To make this work though companies need information:

Frequent, reasonably accurate, management information seems the key characteristic of successful companies...Very few companies that have just gone bust or just generally got into trouble in the recessions of the past few years have had effective budgeting and financial control systems. Very few of those who have survived and done well have not' (1984:57).

Writing from a perspective of a venture capital fund manager in recessionary times Warnes (1984) offers a "hard-nosed" approach to business success. He argues forcefully that profitability and cash is important; turnover is not. Warnes advocates halving output if your company profits by doing so, and he shows that in a surprising number of cases halving production will increase the profitability of the firm. Firms need to understand the management information, their real incomes (gross profit margins) their costs and their breakeven points. Finally owners seem to pass up the almost miraculous effect of productivity increases on profits.

2.12 Decision-making, Heuristics and Judgement

Making assessments about the performance, strengths and weaknesses of SMEs requires judgement. Casson (1992) defines judgement as decision-making in situations that are 'complex, novel and ambiguous'. These situations are what Knight would call uncertain rather than risky. Risky decisions are those for which one can assign objective probabilities. Having done so and assessing one's risk profile the economic actor can make a decision. However, when the situation is ambiguous you have to assign your own subjective probabilities. Tversky and Kahneman (1974) show that: '*people rely on a set of heuristic principles which reduce the complex tasks of assessing probabilities and predicting values to simpler judgmental operations*' (reprinted in Kahneman, Slovic, and Tversky, 1982). In doing so, whilst these heuristics are useful they tend to commit three common systematic errors. The errors concern estimates of the representativeness of their sample, availability of the event, and being tied to an anchor. Representativeness describes the bias that afflicts even experienced researchers who believe their samples are more representative of the general population than predicted by sampling theory. Availability refers to the frequency of events. If asked about the level of crime, for example, people refer to the events in the news or neighbours and thus overestimate the frequency. People underestimate mundane events. Anchoring describes the occasions where estimates are too close to an initial value because estimators are reluctant to leave it behind. Heuristics are short-cuts used by people under

uncertain conditions, in doing so they represent information in a useful way but are subject to systematic biases. PBAs are using heuristics to advise SMEs to improve their chances of success.

Yet, Kruglanski (1992) takes issue with the dichotomy of decision-making between rational 'normative' and heuristic and holds that all judgements are administered under the same set of precepts. He calls this the lay-epistemic model (LE). This model assumes judgements are reached as a sequence of hypothesis generation and testing. Even when hypotheses are tested under Bayesian statistical methods, he asks where hypotheses originate? The LE model believes hypotheses come from the individual's available world knowledge, subject to cognitive processes. Hypotheses, constructed from mentally accessible categories, depend upon how recently or often the categories were triggered, and how vivid these memories were. This takes us back to the biases inherent in heuristics but 'within a rational model'. Kruglanski's point is that the biases in heuristics are endemic because they come from human information processing.

The LE model assumes that hypotheses are tested through disputation with relevant data. But what counts as relevant? This again depends on connections in the mind of the decision-maker between 'specific cognitive categories'. All relevance is subjective so inferences are part of the normative (rational) rules of Bayesian decision analysis. Kruglanski says '*all cases of judgement involve the knower's prior assumptions or inference rules stating some linkage between different categories, hence indicating what evidence is relevant to what judgement*' (1992: 460). Thus, representativeness bias is a special case of inference rules, indispensable in all judgements, heuristic or not. The key problem is the lack of attention paid to base-rate and other evidence. Base-rate evidence describes known fundamental data. For example, Vertzberger (1990) argued that US President Johnson believed (wrongly) in the Mekong River development project (in Vietnam 1964-68) because he saw it as similar (representative) to his 'Great Society'. He ignored known 'base-rates' of past failures of US foreign aid programmes. The key problem with all the heuristic biases noted by Tversky and Kahnemann (1974) is the early closure of information gathering, particularly base-rate information. Yet there are search costs associated with gathering evidence. This early closure has more to do with motivational and cognitive factors rather than biases inherent in judgement heuristics. Clarke, Mackaness and Culligan-Dunsmore (1997) argue that intuition is an essential part of decision-making. They cite studies that suggest normative decision analysis and intuition is a powerful combination. They say that intuitive judgement is composed of four sources '*the application of significant and learned 'hard facts'; comparison with analogous benchmarks; reflection on unique and contextual factors; and the use of other surrogate measures gained from personal experiences*' (1997: 2).

Krabuanrat and Phelps (1998) argue that the rational model of decision-making is flawed: *contrary to a widely held belief, the rational model of decision making may not be an ideal at which to aim (even in the sense of bounded rationality) for dynamic strategic decisions; instead the development of heuristics and mental models may present a more relevant aim* (1998: 92)

PBAs are bound to use heuristics to simplify their (complex) task. These heuristics will derive not only from prior research but importantly, experience from giving business advice and prior business experience.

Theoretically, heuristics are expected in business advice. Decision-makers short-cut to concentrate on key areas. Turning to the practice of SME assessments, bankers' lending decisions, and investments by business angels and venture capitalists provide practical examples of this decision-making studied by researchers.

2.13 Financiers, Heuristics and the Small Firm

In their study of lending decisions by bank managers Deakins and Hussain (1993) assert:

The combination of the non-specialist approach and the advice on a narrow range of information on which to base their assessment meant that officers relied on their experience when making lending decisions. Although banks try to control this rule of thumb decision-making by having their own guidelines for officers and requiring them to report decisions to superiors, officers will use their own intuition based on their previous experience. Where a decision has been successful in the past, it is likely to be repeated, yet the sophistication of risk analysis behind this decision may be weak.'(1993:184).

As we already discussed, the nature of the problem, the uncertain and ambiguous conditions lend itself to more heuristic decision-making. Lending decisions are a *'process of interface between the rules and a manager's experience'* (Fletcher, 1996:12). Bank lending is a partly intuitive, heuristic decision made by experienced managers. Green (1991) suggests that *'managers get an overall view of the potentials of the project at an early stage thanks to an intuitive general impression'* (1991: 284) Most assessments of firm performance are likely to fall into this category too. Is this necessarily bad?

Altman (1971) in a study of commercial bankruptcy in America suggests an element of intuitive, qualitative analysis is necessary in decision-making, as do Clarke et al. (1997). Moreover, quantitative analyses (like investment criteria, net present value, etc.) and experienced managers can manipulate credit scoring (Fletcher, 1996). Deakins and Hussain (1993) argue that training for bank staff in risk analysis is part of the solution to the problem of small firm assessment. So what can we glean from academic research about small firm assessment of SME performance?

Deakins and Hussain (1993) interviewed 30 bank officers. They presented a real business plan to gauge the criteria used by managers. They found a remarkable difference of opinion concerning the viability of their proposition. They found managers to be rather short-term in outlook, concerned with cash flow forecasts for the next twelve months. Managers' criteria concentrated on gearing, the personal financial position, and forecasted balance sheets; whereas only 13% of managers asked for the business strategy. This may be due to the specific business proposition put before managers because it had relatively high gearing. The possibility exists that the managers use a process whereby they concentrate on 'error signals'. Parts of the business proposition where the managers were satisfied; therefore, may not have received much questioning. Moreover, Managers may well have expected the academics to be adept at strategy. The research might have put several different propositions before managers. In addition, changing interviewers might have made some difference. Deakins and Hussain asked managers to discuss criteria used to assess lending propositions. They found little correlation between these and the criteria used for their proposition. The variance in the rank order of the criteria was high. Managers were not in total agreement about which were most important. Again this might be due to the process of the decision. Thus trading experience, profitability and projected income might be equally crucial for any business despite an apparently arbitrary order between these three. Managers talked about the 'mix' of factors. Managers viewed mnemonic guides such as PARSERS as aids for inexperienced managers.

Table 12 The importance of Criteria used to assess lending propositions

Criteria	Rank order	Mean score	Standard deviation
Trading experience	1	4.43	.5
Projected income	2	4.37	.85
Existing profitability	3	4.3	.6
Equity stake	4	4.18	.69
Repayment of previous loans	5	4.12	.76
Gearing	6	3.82	.95
Client an existing customer	7	3.78	.76
Net profit to sales	8	3.75	.89
Previous loans	9=	3.73	.69
Personal guarantees	9=	3.73	.69
CVs of clients	11	3.7	.76
Trade debtors	12	3.65	.71
Liquidity ratios	13=	3.62	.85
Gross profit to sales	13=	3.62	.85
Trade creditors	15	3.57	.85
Charge on personal assets	16	3.55	.65
Fixed charge on business assets	17	3.52	.91
Floating charge	18	3.00	1.07

Note: 6 pt scale from 0-5

Source: Deakins and Hussain (1993)

Character, and the ability of the entrepreneur to sell the proposition was rated as important. The authors found no significant association between ranking of criteria and the decision on the proposition. Further, the authors discussed the reasons for rejection of proposals, though not with all the managers. Table 13 below shows the percentages of managers mentioning criteria for rejection.

Table 13 Reasons for rejection of propositions

Criteria	Percentage of managers
Under-capitalization/gearing	57%
Lack of experience/track record	38%
Poorly prepared business plan	33%
Management ability	29%
Lack of security	24%
Serviceability	21%
Sample = 21	

Source: Deakins and Hussain (1993)

These reasons to reject proposals might suggest an assessment method. Product experience, a familiarity with the market, was rated as important for new businesses. Hence, it was important on all counts. The gearing that the authors found to be most important in their proposal tops the poll in table 13, indicating a negative assessment of proposals perhaps. Thus just as researchers might accept a theory unless it is falsified, do managers accept applications for funding unless the aspirant triggers their reasons for rejection? One can imagine an algorithm that states: if gearing is less than 1:1, the applicant has a track record in the industry, a well-prepared business plan, demonstrates some managerial ability and has security, then accept to proposal. Thus, bank managers may be using a series of hurdles to screen applications.

Deakins and Hussain note the role of personal collateral. It is one method by which banks deal with moral hazard. Collateral and a personal equity stake signal commitment to the business for the bank. Banks rarely use the loan guarantee scheme and are unwilling to back ventures without personal collateral. This may reduce the exploited opportunities within the economy. Moreover, the relatively unsophisticated lending criteria are no real approach to the adverse selection problem, which is essentially the decision to do business with an entrepreneur.

Fletcher (1996) investigated how Scottish bank managers make lending decisions. Following from Deakins and Hussain, Fletcher interviewed 38 bank managers in Scottish banks. A proposal was presented with the researcher as entrepreneur, seeking to raise £60 000 with an equity stake of £30 000 in the recession affected Scottish construction industry. Gearing was 2:1. Secondly the interview asked about criteria for lending.

Fletcher found Scottish managers were significantly more likely to support the proposition. This reflected the stance of two of the three Scottish banks. Scottish managers were more favourable. These attitudes might reflect lower numbers of business proposals due to the relatively lower number of small firms in Scotland (Gallagher, Robson and Kerr, 1993). These bankers were also concerned about gearing but not so much as the West Midlands banker. Those deciding to lend were impressed with the credibility of the owners and viewed the equity injection as showing commitment. Managers had guidelines but varied in their use. One bank, for example, had a manual with expected financial ratios for 200 business sector, used by one manager, not used by another. Management capability was the top criteria sought by managers.

This might indicate the differences in the presenter of this proposal. Fletcher produced a table that showed the rank order of decision criteria.

Table 14 Rank order and mean scores of criteria used on all propositions

Criteria	Rank order	*	Mean score	Standard deviation
Trading experience	1	1	4.29	.69
Equity stake	2	4	4.11	.83
Gearing	3	6	3.95	.84
Existing profitability	4	3	3.87	.88
Debtors	5	12	3.68	.78
Net profit to sales	6	8	3.53	.92
Liquidity ratios	7	13=	3.45	.92
Fixed charge on Business	8	17	3.42	1.03
Creditors	9	15	3.37	.79
Gross profit to sales	10	13=	3.34	1.10
Repayment of previous loans	11	5	3.26	1.11
Projected income	12	2	3.24	.97
Presentation of the business plan	13	NA	3.21	.94
CVs of clients	14=	11	3.18	.96
Floating charges	14=	18	3.18	1.21
Personal guarantees	16	9=	3.03	1.08
Previous loans	17	9=	2.82	1.14
Charge on personal assets	18	16	2.79	1.04
Client an existing Customer	19	7	2.29	1.29
Source of referral	20	NA	2.21	1.19

6pt scales from 0-5; * = Deakins and Hussain rankings.

Source: Fletcher (1996).

The most important criteria are relatively consistent: trading experience, existing profitability, and equity stake, in the top four each time. There are differences. Scottish managers show less concern that the client is an existing customer. Fletcher believes that Scottish managers might be more pro-active due to the shortage of proposals in Scotland.

Other financial competitors to banks, venture capitalists and business angels also make funding decisions in similar circumstances. The balance of risk and return for these, predominantly equity investors, is different. These investors are more interested in growth than mere survival. Research into these groups identifies their methodologies for investment.

Writing in the Financial Times Mastering Enterprise series, Colin Mason and Richard Harrison point out that business angels are motivated by capital gain, though altruistic motives and the opportunity to play a part in the business are important motives. Investors reject over 90 per cent at an initial stage. Proposals must overcome the business angels 'reasons not to invest'. Essentially, the angels accept a proposition because they cannot find enough reasons to reject it. Mason and Harrison say *'Although the identification of one or two perceived weaknesses in the proposal is unlikely to be sufficient to make the investor stop reading, the accumulation of several weaknesses will lead to a rejection'* (1997:9)

The decision to invest therefore depends upon not failing the criteria for investment. Angels might have personal criteria such as industrial market, finance required and location. Angels can be specialists not generalists. Some have expertise in particular industries and are willing to back ventures in that area. They may back ventures in particular technologies. They may be more opportunistic and quicker to decide, and stump up the cash but they may want to play a more active role in the business than the owner/ manager would wish. Stevenson and Coveney (1996) identified six types of business angel using a survey method. Their 484 respondents represented a response rate of only 7%, though the number is five times the size of previous surveys, according to the authors. Stevenson and Coveney found the reasons for making investments were financial.

Table 15 Principal attraction for angel investment

Attraction	Percentage
Greater financial returns than stock market	51%
To create a job/income	34%
Fun and satisfaction	29%
Sense of social responsibility	3%
Other	7%

Note: respondents could rank jointly

Source: Stevenson and Coveney (1996)

The rates of return expected by angels varied considerably. On average they expected returns of 21% p.a. and expected investments to be for six years. Their criteria for selection depended to a large extent on the management.

Table 16 Principal criteria when assessing a proposal

Impression of the founder/manager	59%
Experience/understanding of the sector	29%
Projected profitability	9%
Content and presentation of the business plan	8%
Attractive margins	7%
Location of the venture	5%

Source: Stevenson and Coveney (1996)

The impression of the management of the business was by far the principal criteria for business angels. Most preferred to receive a five-page report summarising the business plan with a full CV and contact numbers which enabled them to form an impression of the management. The understanding of the sector was important for almost one in three. Business angels, therefore are, unlike bank managers, not all generalists. The location of the business was less important than previous research suggests. Stevenson and Coveney found 45% of angels willing to invest more than 200 miles from their place of work. The survey found business angels to be overwhelmingly males (98%), middle aged and university educated. Half the angels founded two or more businesses and the principal source of their wealth was their own business for just under half with only one in eight inherited their wealth. Yet the group was not homogenous and differed in investment strategies.

The survey identified the six types of angel: virgins (37%), latent (9%), wealth maximisers (20%), entrepreneurial (10%), income seekers (16%), and corporate (9%). Statistical differences at the 1% or 5% level identified these types. The first two groups were willing to lend but either had not done so, virgin angels, or had not done so in the last three years, latent angels.

The virgin angels in this research had funds to invest but had yet to find a proposal to back. They were less wealthy, came from a less entrepreneurial background and were less concerned with their impression of the management and more concerned with the business plan and location than the other angels. Their principal investment motive was financial. The latent angels were wealthier and more entrepreneurial than the virgin angels. These angels were more concerned about location than others. They were local investors. They would invest more if they had a better knowledge of the management of the local businesses and evident exit routes.

Wealth maximising angels were the largest group of active angels (37%) and the least concerned with location, 47% willing to invest over 200 miles away from their place of work. They are rich and experienced businesspersons. Not as rich as entrepreneurial angels they make as many investments as the entrepreneurial by investing slightly smaller amounts. Their median investment was £40 000. Thus they adopt a portfolio approach. They often provide support and are probably the most likely to use business introduction agencies to find proposals.

Entrepreneurial angels are older, and richer (61% had net worth more than £1m) than other angels. Less likely to co-invest they invest for the 'buzz' and as a better option than the City. Two in every five are willing to invest in locations over 200 miles away.

Income seeking angels are less affluent. They invest to generate an income or even a job for themselves. They have founded the fewest numbers of businesses, prefer to co-invest and are concerned about location. In many ways Stevenson and Coveney believe previous surveys depicted all angels as income seeking angels. The authors argue that this distorts the picture because these are the minor players. Undoubtedly, they may play a useful role in local small businesses.

Corporate angels are companies making numerous angel type investments. Their motives are financial but they mentioned a sense of social responsibility. They invest larger amounts in each

proposal. The authors argue that corporate angels have been overlooked in the literature and made the largest and most frequent investments despite accounting for only 16% of the survey.

This typology of business angels whilst changing the view about the nature of angels is also used to tell us something about their investment behaviour. The limiting factor for investment is the lack of suitable proposals. More investments would be made if the angels trusted the management.

Table 17 Reasons restricting investment

Reason	Angels	Virgin Angels
Lack of suitable proposals	70%	66%
Lack of faith/trust in management	42%	30%
Lack of reliable information	32%	22%
Lack of available funds	32%	20%

Respondents could mention more than one

Source: Stevenson and Coveney (1996)

Tax incentives would stimulate angels but not virgin angels and it appears incentives for investment in higher technology companies are on the way in the UK. Available exit routes are seen as the second most important factor to stimulate investment.

Table 18 Factor stimulating more investment

Reason	Angels	Virgin angels
Better knowledge/trust of management	63%	57%
Available exit routes	44%	45%
Co-investment with experienced angels	38%	42%
Better tax incentives	45%	34%
Knowledge of successful angel investments	25%	23%
Corporate finance advice	16%	19%
Other	24%	21%

Source: Stevenson and Coveney (1996)

The better knowledge of management is one reason why the introduction agencies for angel investment appear to work better when the agency vets the proposal. However, Stevenson and Coveney's finding suggest there is a large room for improvement. To do so the problem appears to be concerning how angels make their decisions. We know that they judge a proposal looking for reasons to reject it. We know those management concerns are the top priority what we do not know is how these concerns might be allayed or confirmed. Stevenson and Coveney found 45% of angels favoured a detailed 4-5 page appraisal of the business plan, written by agency staff. This is exactly what VCR network use and half of the respondents were subscribers to VCR.

In order to uncover further the decision processes of business angel subscribers to VCR, Mason and Rogers (1997) used protocol analysis. This asks respondents to 'think out loud' while they

go about their business, in this case screen business proposals. These verbal statements are tape recorded and transcribed. Ten investors evaluated in the region of 150 proposals. Active investors, they had founded businesses (median average of two per investor), and were predominantly male between 45-64 years old. The decisions to accept or reject the proposal took an average of 11.25 minutes to determine. The authors believe the tape recording lead investors to discuss the proposal after they had made their decision. Consequently the figure of 11.25 minutes is probably a maximum figure. Most business angels took between five and ten minutes to screen the proposal, with two taking only a few minutes whilst others taking over twenty minutes. A frequency count of investment criteria found market and financial considerations followed by the management team. Investors preconceptions of the market are strong. They are likely to rely on these to evaluate the market. Conclusions on financial considerations or the management team depend upon information in the proposal. Investors, using their own money with little outside pressure to invest, are particular about whether the investment 'fits' their investment criteria.

The most significant element of the fit between the investor and the proposal is the investor's knowledge of the market. Business angels are specialists. An investors *commented 'I've no interest in the segment...'*. The second element of fit is the amount of capital required. This research found the third factor location, followed by the stage of development. Some business angels are wary of start-up investment. There are some non-financial aspects to investors fit, so-called hot buttons. One engineer's interest in the engineering aspects caused him to read on.

The research described the decision-making process as 'three strikes and you're out'. Angels look for reasons to reject the proposal. They authors quote one investor thus:

Throughout this I'm very cynical and sarcastic and i have to be because i know that I'd have to look at ten [investment opportunities] to get seriously involved with one. Really, my aim is to eliminate nine, rather than find the gem now... If I can't eliminate this one, that's the gem. So the assumption I start with is that it's lousy and as I go on I [may] change my mind.
(1997:38).

The cumulation of several perceived weaknesses will lead to a proposal being rejected.

Investors need convincing that entrepreneurs understand the market. One investor inferred market information based upon the *Financial Times* only as representing insufficient market research and thus a doubt regarding his competence. Highly competitive markets and those businesses with high marketing costs were judged as weak. The next critical factor is the experience and track record of the entrepreneur, especially sales and marketing. Financial considerations concentrate on the upside potential. This returns to the market for the product. In addition, the reason for the equity becomes important. Requests for capital to repay loans or shore up a weak balance sheet are frowned upon. Investors want to provide expansion capital. The unique selling proposition (USP) of the product or service must convince investors. An investor lost interest because *'there isn't really an incisive comparison of the product versus its competition'* (1997:40).

Mason and Rogers (1997) concluded there are four key investment criteria.

1. Market. The level of competition and costs of marketing and distribution.
2. Entrepreneur/management team. Credible track record particularly sales and marketing.
3. Upside potential. The use to which the money will be put.
4. Competitive advantage. The USP of the product.

For business angels, then screening business proposals is a rather rapid 'three strikes and you're out' rejection of proposals which do not fit investment criteria. This does beg the question of what happens next. Only one-in-ten business proposals get this far but it is not clear that these businesses will end up with funding. Moreover, the number of investors in this exploratory paper is ten. The rather cynical approach also strikes one as plausible. Business angels are not the only equity providers, venture capitalists provide equity though too.

Daniel Muzyka and Sue Birley (1997) discussed screening of business proposals by venture capitalists. They asked 70 venture capitalists for the factors that they considered when weighing up an investment decision. Their criteria fell into seven categories. Product market factors considered market size, growth and seasonality. Strategic-competitive factors on the other hand related to the competitive elements of markets, the ability to create barriers to entry, the extent of competition. The leadership and track record of the management team constituted another

category. The time to break-even projected rate of return were important facets of the financial category. The funding and nature of the funding requirement vis-à-vis the existing portfolio of investment. Finally, the venture capitalist considers specific nature of the deal. Table 19 details the ranking of factors considered when assessing proposals.

Table 19 Ranking of Factors considered in assessing venture capital opportunities

Factor - number denotes rank
1 Leadership potential of lead entrepreneur
2 Leadership potential of management team
3 Recognised industry expertise in management team
4 Track record of lead entrepreneur
5 Track record of management team
6 Sustain share position
7 Marketing/sales capabilities of management team
8 Organisational/administrative capabilities of team
9 Ability to get the cash out of the investment
10 Degrees of product market understanding
11 Expected rate of return (return on investment)
12 Time to break-even
13 Financial/accounting capabilities of team
14 Ability to create post-entry barriers
15 Business meets funds constraints
16 Process/production capabilities of team
17 Uniqueness of product and technology
18 Market growth and attractiveness
19 Degree of market already established
20 Time required to payback the investment
21 Ability to influence nature of business
22 Importance of unclear assumptions
23 Stage of investment required
24 Ease of market entry
25 Strength of suppliers and distributors
26 Nature and degree of competition
27 Location of business
28 Business and product fit with venture capitalist's portfolio of investments
29 Projected market size
30 Sensitivity to market cycles
31 Ability to syndicate (bring others into) deal
32 Number and nature of co-investors already in the deal
33 Seasonality of product market
34 Scale and chance of later financing rounds
35 Location of business relative to fund
Source: Muzyka and Birley (1997)

Muzyka and Birley conclude that primarily venture capitalists want to establish that the leadership and managerial capacity is present in the managerial team. As in Penrose's theory of

the firm, it is the managerial constraint that is seen as the key to the growth of the firm. In this they are in agreement with business angels.

Although, research reveals many quantitative factors associated with the growth and survival of the small firm; knowledge of these is impossible to translate into effective business advice to small business owners. We have seen that the educational background, the marketing experience and exporting associate with growing firms. However, many of these factors are given before an advisor comes into the firm. In addition, the survey research to correlate factors with growth, inevitable constrains the findings. These are biased towards individual ability and personality on the one hand and on the other non-price competition. For advisors and for many researchers the problem with all the factors and ideas is that the key is management, or entrepreneurial, capability. This is not directly measurable and thus academicians and practitioners alike use all sorts of proxy measures to try to assess the ability of the firm's management. The academic research suggests a number of factors, some of which are already given; practitioners are more likely to generate elements that point to specific business advice.

2.12 Conclusion

Government support has shifted from support for new firms; to a targeted, customer-focused, pro-active support for existing firms with the potential for growth. This shift has its roots in the recognised aspects of the UK SME sector. Government support to established growth businesses recognises the high turnover of SMEs, that employment growth is highly concentrated and that many businesses are 'lifestyle' businesses. However, although the policy shift is recognised in policy and academic circles, implementation is through local Business Links. Business Links have to make the policy work on the ground.

In practice, the new policy is complex. The factors that make a growth SME are a puzzling combination of entrepreneurial behaviours, management capability, strategic knowledge, timing, hard-work, environmental and competitive changes, location, macroeconomics and luck. PBAs are thrust into this complex mix and make heuristic short cuts to make the problem tractable, and develop their own tacit knowledge. They may mirror investors' judgements of firms from a shortlist of criteria, and indeed they must help firms to raise finance and forestall the heuristic-using bank manager. The research wanted to examine the heuristics used by PBAs and other advisors as they sought to help firms with the potential for growth.

In doing this, the research followed those advocating a more qualitative analysis of the small firm sector (Cooper, 1995; Deakins, 1996). The heuristics of the advisors - and subsequent questionnaire self-administered to PBAs - provided an opportunity to develop a model of SME performance capable of being used in an advisory capacity, and one that would reach more subjective, but nonetheless rigorous, analyses and assessments of SME performance.

METHODS

Methodology describes the research procedures. The degree of methodological rigour and the peer review within the academic community separate academic research from mere assertion. However, the choice of methods has mushroomed and though this provides researchers with more 'tools', it also forces researchers to make more choices about method. In particular there is a great deal of controversy and debate between qualitative and quantitative methods. There are no perfect answers to the issue of research methodology. All methodological choices involve trade-offs; although, many argue that some methods are more 'rigorous' than others.

This section considers the methodological choices open to the research on small business advice, then justifies the methods chosen, and details the trade-offs involved in the research. It first looks at the controversy surrounding qualitative and quantitative methods. This involves the beliefs of the researcher, as well as the choice of tools - a pragmatic approach. It touches on the reasons to choose a method and the methodological arguments surrounding qualitative and quantitative research.

Having considered the more philosophical issues surrounding the methods used in research the next section considers the choices made for this research. Given the large number of available research tools a justification for which particular tools were chosen has to be made. Then the section considers the unit of analysis, the business advisors and the sample. After this one considers the limitations of the method before looking at validity.

3.1 Qualitative Vs Quantitative methods

Burrell and Morgan (1988) have given focus to a debate that splits academics into qualitative and quantitative researchers. The debate involves different views about what constitutes warranted knowledge, what constitutes academic rigour and what are correct subjects and methods for academic researchers. And some, notably postmodernists, have attacked the scientific method's

myth of objectivity. The so-called lack of rigour in postmodernism, for example is lauded by Paul Feyerabend:

'The only principle that does not inhibit progress is: anything goes...Without chaos, no knowledge. Without a frequent dismissal of reason, no progress...For what appears as 'sloppiness', 'chaos', or opportunism...has a most important function in the development of those very theories which we today regard as essential parts of our knowledge...These deviation, these errors are preconditions of progress' (Against method 1988).

Qualitative approaches derive from phenomenological philosophy. Phenomenological philosophy emphasises meaning given to events, by actors, within their normal context. Qualitative research concerns itself with shared subjectivity. Many qualitative researchers believe the social world is not an objective fact but is constantly being created and re-created by participants. In this approach, theory is generated from data, and the qualitative paradigm has a different competing model of warranted knowledge (Henwood and Pidgeon, 1992). Van Manen (1979) suggests qualitative research is: *'at best an umbrella term covering an array of interpretative techniques which seek to describe, decode, translate, and otherwise come to terms with the meaning, not the frequency, of certain more or less naturally occurring phenomena in the social world,'* (1979, :520).

The process has resisted reification. Whereas quantitative research has a specific set of procedures, qualitative researchers have resisted such step-by-step guides. This has let qualitative research open to attack for being less rigorous and, is often difficult for the novice researcher. For Creswell (1998), there is a theme running through qualitative research. Qualitative research is inductive, looks at the how and what, is exploratory, and detailed. He might also have said that it aims to explain the focus of the study within the context and aims to take a holistic view. The method is inductive rather than deductive.

The inductive process is the primary way that we find out about the world (Holland et al., 1986). Holland et al say *'The study of induction, then, is the study of how knowledge is modified through use'* (1986:5). This is described as 'going from the specific to the general'. Deductive methods are opposite, involving 'going from the general to the specific'. Beginning with a hypothesis, you believe to be correct; you make systematic observation to see whether data supports that hypothesis. You might want to compare two groups to see if one were particularly different

from the other. It is very important that the search is for falsifying evidence. A problem of whether the hypothesis or the observation comes first is debatable because the two interact. Our hypothesis determines what we choose to observe and our observations determine our hypotheses. In this context of the interactions between hypotheses and empirical observations are paradigms (Kuhn, 1970). Paradigms constrain the way in which the researchers view their subject. Thus the feelings of small business owners, difficult to quantify, are not the focus of the quantitative small business research reported in Storey (1994).

Quantitative research is also seen through a framework, notably logical positivism. It tends to be regarded as the 'scientific' method, often called the hypothetico-deductive method. The process, seen as value-free, apes the success of the natural sciences. A hypothesis is advanced, building on previous research, operationalised and then tested against empirical data. The researcher decides which ideas are those representing the key aspects of the problem. In a real sense the deductive method tests the researchers view of the world. The source of hypotheses in the hypothetico-deductive method should build upon the previous research. Thus the research needs a literature review. Literature reviews place the research within a context of the previous theory and should demonstrate how the piece of research fits with existing knowledge, and, thus how it will contribute to the body of knowledge within a discipline. Then the concept is operationalised in a way to define the rules for deciding what is, and is not, an observation of the concept, then one tests observations with the theory. If the tested theory is not disproved then evidence for the theory is presented. This process gives a clear set of instructions about what is or is not falsified theory. Moreover, by explaining and setting down all these elements any research can be replicated. So other researchers can find the same phenomena when following the same steps, or not. And, if they cannot then the theory might be rejected. Scientific methods are concerned with causal explanations and prediction, this caused this, and controls for interfering factors are a problem, whereas interfering factors for qualitative researchers might be seen as context. Karl Popper (1920) argued that scientific method should falsify theory rather than confirm it. Following Hume's problem of induction, Popper suggested that, for example, if you are to find out whether the proposition all swans are white, counting 20 white swans indicates some validity, counting 200 may indicate more but in essence you have to find swans that are not white to disprove the hypothesis. Gill and Johnson (1991) note three elements to Popper's definition of scientific theories.

1. They should be capable of empirical testing. Thus, Freudian theory in psychology is not scientific for positivists.
2. Scientists should not find support for their theories but should strictly attempt to falsify their theories.
3. Once a theory has not been falsified, it then stands up as a 'valid' theory.

Science proceeds as falsified theories fall away and those left are the core of substantiated theory, having stood the test of time. Proponents of the hypothetico-deductive method view social science through similar lenses as the natural sciences. It may also be seen as attempting to appropriate of at least share in the status of science, hence the term social science, rather than social studies. Value-free social science is a result of the surge of logical positivism through science in the early twentieth century. This has, however, not been without criticism from outside the tradition.

Critiques in the social sciences have tended to focus on the difference between the subject matter in the, highly successful and high status, natural sciences and the social. The natural sciences view of a change in x causing a change in y

$$Y = f(X)$$

is seen as a stimulus-response model. Are humans, the subject matter of social science, the same? Laing (1967) points out the essential problem with following the natural science approach: *'The error fundamentally is the failure to realise that there is an ontological discontinuity between human beings and it-beings...Persons are distinguished from things in that persons experience the world, whereas things behave in the world.'* (Laing, 1967: 53) Faced with the same set of stimuli, humans respond in disparate ways because of their experience. Gill and Johnson suggest there are four points here:

1. Human action follows an internal logic. Social science should make this internal action the subject of research to explain the action.
2. The matter in the natural sciences does not contend with the subjective self-reflection. Consequently, the natural scientist can focus on the external logic to explain the behaviour of matter. When involving humans, this is inappropriate, any explanation must involve the

subjective experience. The behaviour of a football can be explained without recourse to its subjective viewpoint; the behaviour of a footballer cannot. Their interpretations and motives have to be considered.

3. The social world cannot be seen as following causal relationships that disregard the actor's interpretation of events: social meanings, attitudes and beliefs. *'Therefore human action is seen as purposive and becomes intelligible only when we gain access to that subjective dimension'* (Gill and Johnson, 1991:34).

4. Social science must explain human actions with meanings and interpretations of those studied: an emic analysis. Those etic, externally focused, analyses of the positivists are inappropriate where the 'subjects' have subjective experiences.

The stimulus response model is rejected in favour of one of two models in figure 6

Figure 6 Inductivist models

(1) stimulus - experience and interpretation - response

(2) interpretation and meaning - action

Source: Gill and Johnson (1991)

In the first model the experience and interpretations are intervening variables that interrupt and condition the process of stimulus response. It is, if you like, an amended view of the stimulus response model. You can imagine thus a set of factors contributing to youth crime, if the youth's attitude contained a set of interpretations. The second model accords much more emphasis on the interpretation and meaning of actors in situations. In this view the subjective experiences and processes can create the reality experienced. In a sense the interpretations create the stimuli rather than the other way around (Berger and Luckmann, 1967). The stimulus is insignificant; all is subjective. These are two traditions but both share the view that actors' interpretations create human action. *'Thus the possession by human beings of a mind has freed them from the stimulus-response relationships that dominate the behaviour of 'natural phenomena'* (see Mead, 1934) Obviously this view has created particular methodological commitments.

1. The positivist view of dealing with social affairs as if they are matter, is seriously objected to. *'Social life..is produced by its component actors, precisely in terms of their active constitution and re-constitution of frames of meaning whereby they organise their experience.'* (Giddens, 1976: 79)
2. Social scientists must explain human behaviour adequately, and therefore need to understand actors' the frames of reference used for behavioural decision-making. This is 'verstehen'. Researchers must be true to the phenomena under study.
3. Following from 1 and 2, The implication for methodology is to reject the highly structured deductive approaches that obscure the actors' subjective meanings. The deductive researcher, with an existing theory of the behaviour of interest, is imposing a view of the world, an external view of the world, on a phenomenon that has an internal logic of its own. It is precisely the internal logic that interests inductive or qualitative researchers. This requires unstructured approaches: *'...what is recommended are unstructured approaches to research that ostensibly allow for access to human subjectivity, without creating distortion, in its natural or everyday setting.'* (Gill and Johnson, 1991, 35).
4. *The prescriptions outlined produce the counter from positivists that the lack of structure infers a lack of rigour. Bias cannot be ruled out. Many positivists regard qualitative research as a possible source of hypotheses but not a method for research.* (Giddens, 1976, 19)

Quantitative researchers often suggest that reliable research should be repeatable and thus the impact of the research is something to be controlled. In qualitative research the researcher is a social being who will have an impact on his or her surroundings. We cannot stand out as objective from outside the human race. Hammersley and Atkinson (1983) say:

'..We are part of the social world we study..This is not a matter of methodological commitment; it is an existential fact. There is no way in which we can escape the social world to study it; nor fortunately is that necessary. We cannot avoid relying on 'common-sense' knowledge nor, often can we avoid affecting the social phenomena we study' (1983:15).

Waddington (1994) points out that all research is done within a social context. Quantitative researchers test their view of the world in constructing his or her hypothesis. Just as decision analysis takes place within a context determined by memory and cognitive processes, so too

with hypotheses. Unlike quantitative researchers those employing qualitative methods must reveal their biases.

Nomothetic methods emphasis the research techniques that are embodied in the natural sciences, and positivist research. Ideographic methods describe the subjective accounts of those involved and getting inside the situation, emphasising theory grounded in empirical observations of the subjects' meanings and interpretational systems (Burrell and Morgan, 1979, pp6-7).

Table 20 Contrasting Nomothetic and Ideographic Methods

Nomothetic methods stress	Ideographic methods emphasise
1. Deduction	Induction
2. Explanation through analysis of causal relationships and explanation by covering laws (etic)	Explanation of subjective meaning systems and explanation by understanding (emic)
3. Generation and use of quantitative data	Generation and use of qualitative data
4. Use of various controls, physical or statistical, so as to allow the testing of hypotheses.	Commitment to research in everyday settings, to allow access to, and minimise reactivity among the subjects of research.
5. Highly structured research methodology to ensure replicability of 1,2,3 and 4.	Minimum structure to ensure 2,3, and 4 (as a result of 1)
Laboratory experiments, quasi-experiments, surveys, action research, ethnography.	

Source: Gill and Johnson (1991:36)

Besides the philosophical issues, researchers might view research through ideological glasses. In particular, researchers may adopt post-modern, critical or feminist perspectives. Researchers might use these perspectives as a counterpart to their bias. Thus a socialist might use a perspective of critical theory to examine the condition of alienation in the factory. An ‘armchair radical’ might use a post-modern perspective (Thomas, 1993, p23), and a feminist could use a feminist perspective. All these ideological positions are critiques of the status quo from the perspective of the oppressed, though they differ in the groups oppressed and the method of their oppression.

3.2 Pragmatists

Gill and Johnson (1991) argue for a multi-method triangulated approach. They say that ‘..a view of methodology, purely in terms of a dichotomy, is fundamentally flawed’ (1991: 127). They turn to what they call the methodologically pluralist position, taking the pragmatic stance that different methods give differing answers and to some extent answer different questions, a combination

can be converge on a fuller, yet generalisable answer. A rapprochement between ideographic and nomothetic research methodologies might be both possible and desirable (McCall and Simmons, 1969).

Trow (1957) proposes that different kinds of information can be gathered efficiently and effectively using different techniques. We return here to the idea of the technical reasons for choosing methodological procedures. The metaphor usually referred to is that of the 'toolbox'. The choice then of techniques depends upon the trade-offs between reliability, (internal and external) validity and the appropriateness to the topic in hand. The researcher's choice of method should be judged for information adequacy and efficiency Zelditch (1962). H.W. Smith (1975) however, uses the term methodological pluralism to discuss the use of different complementary data in the same empirical study, also known as methodological triangulation. This is thought to overcome inherent bias in any one method. It is a pragmatic approach. And in some senses it means putting some ontological issues on one side whilst the research is undertaken. Specifically Burrell and Morgan (1979) suggest that pragmatists must take on the realist assumption about reality, that there is such thing as a real world outside our consciousness. Structures exist outside perception. Some important structures may exist of which we know little and lack 'names'. Nevertheless if the researcher is going to use any quantitative methods at all, then they must accept the assumptions underlying this methodology, at least for the purposes of the research. Thus the individual is seen as born into a social world with a reality of its own. The individual does not create this social world; it is out there. Given a social reality then, experimental or analytical survey techniques, where researchers impose their operationalisation of social reality, are legitimate. The need for research to explore the meanings attached to social reality requires ideographic methods. Hence, the explanation is of quasi-causal explanations, as in position 1 in figure 6. Thus, the actors' experience and interpretation mediate stimulus and response. Thus with this position the deductive method can be used to examine the stimulus - response element. The ideographic element then can be used for taking into account or controlling for the interpretation given to events by actors. That is, however, a rather positivist leaning view of the pluralist method. Alternatively you might consider two levels of analysis, the macro and micro. Methodological pluralism can be used to check the research findings within one research project, increasingly called qual-quant studies. Some studies stress qual more than quant (QUAL-quant) whilst others stress the opposite (qual-QUANT).

Whilst the pragmatic mixing of research methodologies is attractive some researchers reject the pluralist approach. Gill and Johnson (1991) refer to these researchers as parochial. They believe there are two main causes of parochialism. The first cause is where researchers downplay the role of interpretation by social actors, and thus favour the hypothetico-deductive method. A second method of parochialism for Gill and Johnson is the nominalist view of social reality.

The nominalist views social reality as nothing more than a construct of the actors involved, for nominalists:

..the social world as an emergent social process which is created by the individuals concerned.

Social reality, in so far it is recognised to have any existence outside the consciousness of any single individual, is regarded as being little more than a network of assumptions and inter-subjectively shared meanings. The ontological status of the social world is viewed as extremely questionable and problematic. (Burrell and Morgan, 1979: 30-31).

This makes the methodological pluralist position untenable. The implicit acceptance of a realist position is necessary, for all experimental and survey methodologies, since operationalising social elements and the independent variables all imply a social reality (Gill and Johnson, 1991). In such case then, a version of events can be seen as being more than confined to one context but applicable for more individuals and/or over similar contexts. For strict nominalists the scientist imposes his version of the subject in question upon the data awarding their view an unwarranted superior status. A second element is that the participants should check the constructs of the researcher so they understand and share the interpretation made by the researcher.

As Schulz (1967) puts it ethnographic methods assemble reality '*..understandable for the actor himself as well as for his fellow men in terms of common sense interpretations of everyday life.*' (1967:4). The implication is that the piece of research must connect with the participants themselves. Validity therefore is demonstrated by the consensus of the participants. Now, given the view of social reality as a shared consensus of actor's consciousness, this is a reasonable assumption. Moreover, the researchers' views of reality accord no more status than any other of the participants. The other implication is that such things as mathematical models must be readily understood by participants. Given that many are not the paraphernalia of independent variables

and algebraic sets of equations are not considered pertinent. If the language or mode of representation is obscure or difficult then it is more difficult to share the consensus. Clearly, then methodological pluralism requires a realist view of ontology.

Philosophers have some bad news, however, for realists. In conversation Singer (in Magee, 1987) repeats Hegel's criticism of Kant:

The only solution, Hegel says, is to reject this idea of a knower and what's known, the table for instance, as existing on its own, separate from the mind that knows it. What you have to say is that knowledge, if it's to exist, must be immediate. There must be no medium through which we know things. How can that happen? Only if the knower and the known are one and the same. How can that happen? Since the knower is mind, what is known must be mind, so all of reality must be mental. (Magee, 1987, 201,202).

3.3 Research interview followed by survey: why these methods were chosen

The methodology used for this research can be characterised as QUAL-quant. The research method chosen reflects that the research investigated a research question rather than a set of hypotheses. A survey created potential generalisability for the model developed. The research question considered how advisors made assessments of small companies.

Assessments of small companies are going on all the time, from credit rating agencies, to bankers and financiers; myriads of interest groups make assessments of companies. The research then started to look at these groups. Notwithstanding economist's views about difficulties in picking winners, there are in the private sector institutions continuously 'picking winners', or 'avoiding losers'. The latter phrase is usually referred to as the adverse selection problem, where banks try to limit bad debts.

Given that institutions are involved with 'picking winners' among SMEs, and that the hypothesis underlying the research was not clear, it seemed logical to attempt to understand how the institutions and economic agents went about their task. The institutions most involved with assessments of small firms, banks and advisors; use both managerial judgements and quantitative assessments. Therefore, the research concerned the perception of managers, and

advisors. Implicit in this is the assumption that the perception of the manager was the subject, rather than the success of the SME. Thus the unit of analysis is the advisor. Put another way the concern is with what the manager thinks defines success for the small firm rather than any data regarding 'objective' assessments of SME success. We know that the intractability of complex information requires decision-makers to use heuristics or rules of thumb. Thus, the research concerned itself with the decision-makers' heuristics when they judge SME performance. There are previous research papers to draw upon. There is a body of knowledge. The particular area was researched by interviewing the decision-makers. This was to provide a view from the practitioners side, rather than another quantitative methodological investigation.

The choice of research interview was based on three factors: access, speed and generalisability. In order to do qualitative research you have to gain access to the phenomena under study. The research must be complete within a time-scale of about three years. Finally, the various trade-offs within research design can facilitate more or less generalisability.

Firstly access, although the research had help from a business link initially, there was no opportunity to sit in on or sit alongside with the advisors. The first reason, therefore is the amount of access available. Whilst, we gained access to interviewees the request for much more access was never tried, with hindsight this may well have been an error. Methods such as discourse analysis of the reports written by business advisors might well have yielded comparable results. Access to these reports from PBAs would have been another method to (dis)confirm the model. It may be particularly useful to confirm the use of error messages as a way to view assessments where the congruence of strategy and objectives were concerned. The constraints of time do, however, conspire to severely limit the thoroughness with which one can concentrate on the research and it is inevitable that some sort of compromise solution will, ultimately, be adopted. With one interviewee, a part of the Prince's Youth Business Trust, I sat in on an interview before a business being accepted onto the programme. Subsequently, the co-ordinator persuaded me to be his advisor; this added an element of participant observation to the research. The amount of access available was enough to facilitate semi-structured interview research. From structured interviews, akin to questionnaires, which are on the deductive side of the spectrum of methods to the unstructured or semi-structured more inductive, interview style, the research interview can be moulded toward the methods preferred. The use of the unstructured interview might reveal the variables and techniques used by the advisors.

Another reason for using interviews is that there is a perception that, was borne out by the research, that different decision-makers use different heuristics and that to design a small ethnographic study would miss the differences between relative institutions. Advice received by SMEs varies from individual and institution. SMEs are surrounded by a plethora of institutions purporting to help them, most of whom they ignore. A survey might well be presented to different institutions and decision-makers but the deductive design would require testable variables set out in the questions. Frankly, I did not know which variables were the ones that were used. Testable factors could be deduced from previous research yet this would firstly, replicate previous deductive research, and be academic for advisors, the subject of criticism in the literature review. For example, deductive research has found a correlation between exporting and business growth but an advisor cannot walk into every business and suggest they export, for one thing they might have no capability to research a foreign market; for another the link might be extremely complex and the causality might be from business growth to exporting or indeed there could be an intervening variable, such as management capability or the value or the novelty of the product. I wanted to do research that would be relevant to the job. Therefore, the use of deductive techniques, at least to begin with, was ruled out.

3.4 Why other methods were ruled out

I had to decide between the various qualitative techniques. Table 21 below from Creswell (1998) illustrates five traditions of qualitative research, along with their data collection.

Table 21 Data collection and five qualitative research traditions

Data Activity	Collection	Biography	Phenomenology	Grounded Theory	Ethnography	Case Study
What is traditionally studied? (site/individual)	Single, accessible and distinctive	individual, and	Multiple individuals who have experienced the problem.	Multiple individuals who have responded to action or individuals participated in a representative of the process about a group central phenomenon.	Members of a culture-sharing group or individuals	A bounded system such as a process, activity, event, or programme or multiple individuals.
What are typical access and rapport issues?	Gaining from obtaining access to information in archives.	permission individuals, access to information in	Finding people who have experienced the phenomenon.	Locating a homogenous sample.	Gaining access through gatekeeper, gaining confidence of informants.	Gaining access through gatekeeper, gaining confidence of participants.
How does one select sites or individuals to study? (purposeful sampling strategies)	Several depending upon person convenient, politically important, typical, a critical case)	strategies upon (eg) politically	Finding people who have experienced the phenomenon, a 'criterion' sample.	Locating a homogenous sample, a 'theory-based' sample, a 'theoretical' sample.	Finding a cultural group to which one is a 'stranger', a 'representative' sample.	Finding a 'case' or 'cases', an 'atypical' case or a 'maximum variation' or 'extreme' case.
What type of information is typically collected? (forms of data)	Documents and archival material, open-ended interviews, subject journaling, participant observation, casual chatting.	and material, subject	Interviews with up to 10 people.	Primarily interviews with 20-30 people to achieve detail in the theory.	Participant observations, artefacts and documents, interviews, and documents, observation, and physical artefacts.	Extensive forms such as documents and records, interviews, observation, and physical artefacts.

How is the information recorded? (recording information)	Notes. protocol	interview	Long protocol.	interview	Interview memoing.	protocol, and protocols.	Field notes, interview and observational protocols.
What are common data collection issues? (field issues)	Access to materials, authenticity of account and materials	one's logistics of interviewing.	Bracketing experiences, logistics of interviewing.	Interviewing (e.g., openness)	issues logistics	Field issues (e.g., reflexivity, reciprocity, native', divulging private information, deception)	Interviewing and observing issues.
How is the information typically stored? (storing data)	File folders, computer files	Transcriptions, computer files.	Transcriptions, computer files.	Transcriptions, computer files.	Field notes, transcriptions, computer files.	Field notes, transcriptions, computer files.	

Source: Creswell (1998) 112-113

Clearly then, the research interviews fit into the area of phenomenology and grounded theory. Biography is rejected because the requirement for differing participants with differing heuristics. This also rules out a case study. Besides the researcher gained experience as a volunteer business advisor for PYBT. This added an element of experience to the research; I experienced for myself the frustration of trying to instil good management records in a business that lacked the understanding of them. Ethnography is inappropriate because the research focus is on the experience or technique rather than a shared culture. This leaves an uneasy tension between grounded theory and phenomenology; both of which use long interviews, variously described as semi-structured or unstructured. The qualitative research fell into the area of phenomenological rather than grounded theory, for two reasons. Firstly, the research investigated existing theory at the beginning of the research, not after theory building. Secondly, the researcher did not code research interviews after each and before the next as is suggested in grounded theory. Thirdly, the research did not use theoretical sampling but a criterion sample that found multiple people who have experienced the problem. Thus the qualitative research fell under the banner of phenomenology.

Research interviews uncovered the heuristics deemed important by the participants in business advice. The interviews would, I suggest, be fairly repeatable. However, the population validity is likely to be low, interviews of five or so bank managers will not be generalisable to all bank managers. The interviews took place in the offices of the advisors, where they would sometimes meet clients, although many went onto their clients' premises. There was some element of artificiality.

Triangulated research (as in a qual-quant study) checks its findings. Triangulation is one method to establish credibility within qualitative research (Lincoln and Guba, 1985; Eisner, 1991). The first consideration is whether secondary data would support the findings. But secondary data on the perceptions of business advisors is simply not available. It could be used to

assess the soundness of the views expressed by the advisors by, for example, using financial data to describe 'good businesses'. The problem is that many of the variables used by advisors are very difficult to measure. It is unlikely, for example, that the tidiness of a business will be mentioned in official statistics, although prosecutions under health and safety legislation may be documented. Nevertheless, because the focus was on the perceptions and experience of business advisors, secondary sources are unlikely to help. The use of further interviews as a check was considered. This too was disregarded. Firstly, it was repeating the same method and, whilst this might have ontological reason, this would not mix methods and therefore produce a triangulation between strengths and weaknesses of different methods. Thus, mixing a qualitative method and a quantitative method gives the researcher the potential to cover each method's weaknesses with a strength from the other method. The weakness of the research interview is deemed to be its lack of population validity and replicability, although I might suggest that the lack of replicability is a little overplayed. In addition, both the researcher and supervisor independently came to a similar set of overall codes - a procedure recommended by Dukes (1984). Moreover, it is possible to select a group of interviewees who are business advisors, use the open-ended questions and attempt to replicate results with a given tolerance.

To generalise the findings from the interviews a questionnaire was designed to support our theory. This would give the population validity that the interview method lacked. Population validity is the main strength of the survey method. Given the use of interviews the questionnaires were a check a method to validate findings; therefore, the questionnaire asked closed rather than open-ended questions. The type of survey would be characterised as analytic rather than descriptive.

The weaknesses of the survey are the use of correlation and the lack of ecological validity, both of which are relatively stronger for the research

interview. Consequently, the use of a self-administered survey was considered as a quick and convenient check to the interviews.

The survey was sent to all the personal business advisors employed by business links in England and Wales. The survey was mailed to the PBA managers at the various business links. The total mailed was therefore 712. Some business links sent the uncompleted survey back, London Central and eliminating those two makes the total 688. The number returned was 175 representing a return rate of 25%. The spread of the returnees showed no significant variation from the non-returns. Thus, the research used a quantitative check on the qualitative data.

3.5 Subjects and unit of Analysis

The unit of analysis was the advisor's perception. The decision to study the advisor rather than the level of the small business was conscious and deliberate. The advice given to the firm depends upon the model of the firm held within the advisor (Beer, 1979). The phenomenological framework complements the unit of analysis, since the philosophical stance requires the researcher to take at face value the experiences of the subjects of the research and to take as true what is true for them. To be clear, this research is concerned to explain the way advisors conceive of the small business. Whether the model is a realistic predictor of small firm performance is not a legitimate concern. Indeed to ask goes beyond the paradigm. Maybe a future research project would answer this question. For me I am content to try to model the perceptions of business advisors. There are two points to be made here. Firstly, there has been any number of studies, albeit univariate, surrounding the factors associated with small business growth and survival, which can be taken as a proxy for small business success (Storey, 1994). Secondly, whereas the factors associated with the growth of the small firm are fairly well known, the usefulness of these factors for the actual task of advising small business is in some doubt. For example, you cannot change the location of the business, as an employee of the local business link you would not want to, you cannot ask entrepreneurs to take

on partners, you cannot suggest the owner takes a business degree. Yet the numbers of partners, educational background and the location are all factors considered to affect the growth of the small firm. Hence, a qualitative approach is one that can generate a useful discussion of the models and factors actually used and updated by additional experience of business advisors. Hence, I would argue those research interviews in a phenomenological framework made the research more practical. It is not necessary to test the heuristics at this stage.

Whilst the heuristics were not tested, a wide variety of advisors were interviewed, based on a Shropshire TEC survey of business advice. (Worrall, 1996) In this survey, businesses were asked where they found their advice. In response, the more frequent answers were accountants and bank managers. This is confirmed other studies. (Cook and Weatherston, 1995; Smallbone, North and Leigh, 1993; Woods, Blackburn and Curran, 1993) Business link advisors were further down the list. Since these professionals were giving advice to the small firm the interviews were conducted with accountants, bank managers, and business link advisors, other specialist advisors interviewed included a university corporate enterprise centre advisor, two Princes Youth Business Trust managers, and a manager of start-up seminars for potential new businesses. The interviews then involved a wide variety of those participants in the process of business advice. The wide variety of factors captured added to the research's internal validity.

The number of interviews conducted was thirty. One of the interviews was not tape recorded although the interviewee allowed the researcher to sit in on an interview with a prospective new business subsequently recruiting the researcher as a volunteer business advisor for the Princes Youth Business Trust. This enabled the research to experience the process of business advice, albeit at a small start-up level. Another interview involved ten business advisors from a business link. This was akin to a focus group although the questions or prompts used remained the same. This was commented on in the interview and with hindsight and more experience this group might have been set up

differently. The group was told that the research intended to develop a computer model that they found either not credible or threatening depending on your point of view. It made the group difficult, but probably just as enlightening for all that.

The sample all told were thirty-nine including the interview group. This criterion sample, all the participants experienced giving business advice, was found by a snowball method; besides finding accountants in the West Midlands region from adverts in Yellow Pages. The research interview sample then can in no stretch of the imagination be called random. The sample rolled from individual to individual.

3.6 Individual advisors

The decision taken was to take the findings from the various advisors, analyse the data and develop theory from the data using a process akin to Hycner's (1995) fifteen steps to analyse data phenomenologically. After the theory building had taken place the questionnaire was used to confirm or more rather potentially falsify the findings using business link advisors, a more homogenous group. In a sense this is a reversal of grounded theory's technique theoretical sampling. In grounded theory the process originates with a relatively homogenous sample of individuals; as the researcher collects more data and categories emerge, the sample becomes more heterogeneous. This enables the researcher to describe conditions for which the theory holds. Here a heterogeneous sample of interviewees generated a theory. From this theory a sample of comparatively homogenous business link advisors tested the theory. Moreover, the questionnaire acted as a feedback to those involved in business advice, recommended by Hycner (1985). The population of Business Link advisors in England and Wales is 712. Given, that the sample needed to be of over one hundred to have any validity. This was because the study considered that there may be two categories of advisor, one that had higher education and used a fairly structured method to advise companies, and another more experienced group that used more judgmental methods. For a large sample

each group would need to be represented by a sample of thirty. If the groups fell equally, an unlikely occurrence, then at least 60 usable responses would be needed for a statistical test to be used. Consequently, if a return rate of 20%, which is typical, was established then 500 questionnaires would need to be sent out. Given the coverage would be 5/7 of the population it seemed easier just to send questionnaires to every advisor. The questionnaires were sent through a list of the business advisors' managers that the Business Link Company supplied. These were mailed either side of Easter 1998.

3.7 Protocol of interviews

The interviews were held between November 1996 and April 1997. All bar one were taped. The researcher transcribed the tapes, and the data analysed based upon fifteen steps by Hycner (1985). The interview protocol was what is variously described as semi-structured or unstructured using open-ended questions to encourage a wide-ranging discussion.

The questions were designed to follow up some of the initial areas identified in the literature review. In addition one of the first tasks is to try to put the interviewee at ease. Hence the first questions asked simply about their job and how long they had advised small businesses. Following on from that the questions asked about their visits to small firms and asked to be taken through a visit. This in part sets the interviewee at ease and in part elicits information. The next set of questions all considered areas of the business, from marketing strategy to innovation. Although these were phrased in a closed manner as in 'do you think marketing is important?' The intonation surrounding the question encouraged the interviewee to discuss the issue in an open-ended manner. These questions were followed up by supplementary questions asking about how the issues were assessed. This had two effects, it asked for more information and it acted as a check on the more closed question. So for example if we asked a closed question do you think innovation is important the response was often yes. If you then followed up asking whether there was any assessment done often a response such as well no its not very relevant to many

small businesses indicated that in reality although innovation might be theoretically important for many small businesses it wasn't relevant. Thus whilst, say, innovation was seen as important in abstraction; it was not considered important for individual business advice. This added to the richness of the data considerably. The issues of marketing, innovation, culture and business formality were considered in this manner. If the interview protocol was a self-administered question, I would be concerned about these questions; under those conditions they may have been leading. Within this study, however, there were two mitigating factors: firstly, the subsequent probe revealed more of the question than a simple yes or no; secondly, the simple yes or no was not considered in any event. Unless it was in the negative the actual yes/no response was not coded or quantified. After this the attention turned to what the advisor would advise a growing company. Self-evidently the bias of considering growth as success is revealed in this question and the responses to it tends to pick up this bias. Nevertheless, the question did elicit interesting responses. Next, the interviewer asked whether the respondent would make a choice between a strategy-centred or people-centred business. This question came from the perceived split in academic departments between professorships of entrepreneurship that seem to emphasise leadership of an individual, and the area of strategic management that might be said to stress the development of a strategic process or planning. Further, it may clear up two areas of SME research: that of strategy and founding processes on the one hand and the trait approach on the other. The dichotomy may have been false but served a purpose. Following that was an issue of tidiness. This came from the interviewers' experience of work in a warehouse! Finally the interviewer asked whether there were any areas that the interviewee did not cover. The question of financial issues did not arise formally but respondents talked about such issues. The research had started from a position of looking at non-financial measures of performance. Hence, financial measures were not stressed in the protocol.

The research interview questions were prompts for the interviewer. The same individual interviewed every participant and, by encouraging the interviewee to speak the interviews became more open-ended, by head nodding, and agreement the participants were encouraged to talk extensively. Contrast this with a technique whereby the interviewee is challenged to reveal what she or he really thinks. The phenomenological method is to take the responses largely on face value. Nevertheless, by developing rapport the interview can relax the participants and discussions become much more fruitful. The prompts concerned the task; issues such as innovation, marketing, advice to a growth business, strategy and leadership, and finally tidiness and a chance for the interviewee to put their response. Thus the prompts covered a wide range of non-financial issues of SME performance.

The questions in the self-administered questionnaire, on the other hand, need careful consideration. Firstly the questions are closed rather than open, for ease of analysis. Moreover, our research design uses the questionnaire as a validity and generalisability check on the model generated from the research interviews. The questions then are intended to validate that model. As we have discussed, unlike the grounded theory approach, the sample was a more homogenous sample than the interview participants. The questionnaire intended to falsify that personal business advisors assess a firm's control, in then the interaction between the firm's objectives, strategy and control. This theory would provide some implications that we framed into questions and invited the PBAs to agree or disagree. The questions were varied so that there would not be agreement with all of them. Consequently a section of the questionnaire was put together with a series of statements about firms on a Likert scale of 1 - 5 from strongly disagree to strongly agree through agree, disagree and a neither, neutral response in the middle. The implication for the data is that this produces ordinal data. Consequently testing this data must be in a non-parametric manner. The questionnaire further explored the views of business advisors concerning the systematic nature of their task. Given our presumption that the task requires judgements based upon heuristics, we asked advisors about their

task and gave them a series of dichotomous descriptions of their task such as simple...complex. This sought to uncover whether the task was one where heuristics were used. What PBAs thought were important factors for growth and failure was explored. This was to explore the degree of consensus between the PBAs and secondly to gain an insight into the factors they thought were important, which, in future, could be cross-referenced against studies of the same phenomena. The questions in this section did tend to follow the usually cited factors for growth and failure but the issue of control did appear. Specifically, what element of control affected growth of the firm? Did the PBAs think control of the cash that is debt management important to prevent failure but irrelevant for growth. Finally, I wanted to know whether the division of the management of the small firm into specialities of leadership, strategy and control, was comfortable for PBAs. Consequently a series of activities such as setting targets were presented; with an option of deciding whether this is to do with leadership, strategy or control. A degree of consensus of PBAs might indicate a degree of comfort with these functional divisions. The questionnaire contained questions on the background of the business advisor, the proscriptiveness of the business link, the training and educational background of the advisor, his or her view of their job, his or her agreement or disagreement with a series of statements concerning firm performance, the factors deemed important contributors to business failure, the factors deemed important contributors to business growth, and locating tasks under the functional headings of leadership, strategy and control.

Given all these questions, how are these to be analysed? A simple index represents the Likert scale responses. The numbers that strongly disagreed with a statement were subtracted from those who strongly agreed. This was added to the numbers that disagreed with a statement subtracted from those who agreed. Thus (strong) disagreement cancelled agreement and the resultant number is a residual. Further, the cross tabs should bring some generalising confirmatory evidence for the research interview data. The other data referring

to factors concerned with increased growth or the potential for failure. A table ranks the importance of factors that advisors believe are the most important.

3.8 Description of participants

The participants in the research interviews were business advisors. Business advisors need to be defined. The question arises as to where businesses get their advice from, and where, therefore the research should go to interview business advisors. The first piece of information was a survey by Shropshire Training and Enterprise Council that asked owner managers of small businesses where they found their business advice shown in table 22.

Table 22 Small firms source of business advice

Organisation	Small Firms (%)
Accountants	49.6
Banks	33.6
Shropshire County Council	18.5
Shropshire TEC	16.8
Local district council	15.2
Shropshire Business Link	14.6
Private consultants	10.3
Shropshire Chamber	10.4
Department of Trade	7.5
Other agencies	5.4
University of Wolverhampton	2.9
Telford Development Agency	2.7
Commission for New Towns	1.8
European Business Centre	2.2
No contact	32.3

Source: Shropshire Training and Enterprise council - Employer Survey 1996

It is clear, then that the definition of business advisor ought to take some account of exactly to whom small firms, in this case defined as firms employing less than twenty-five full-time (equivalent) people, are going to for business advice. Accordingly, the definition encompassed accountants and bank managers. This introduces a potentially confounding factor and that is the differing structure of incentives for some of the advisors. Bank managers, in

particular, are faced with a risk-averse set of considerations when they deal with a small firm. As providers of loan capital they charge an interest rate above base rates. This incorporates a risk premium yet it does not allow for many SMEs to default on their loans. Hence, bank managers are concerned with firm survival and ability to pay debts and loans; business advisors from a venture capital group, by contrast, are set with a strong requirement for growth by the firm. As equity providers, one firm's success can compensate for several defaulting SMEs. Moreover, the reasons that firms seek advice may well differ. It is probable that the local authority is seen as an excellent source of advice on planning matters but perhaps less so for day-to-day business issues. Consequently, the definition of business advisors, for the research interviews, included accountants and bank managers; along with government and voluntary agencies specifically set up to assist small businesses. The local councils were not approached, largely because their capability was felt to lie outside the area of general business advice. The other agencies' category was used, in particular two interviews were conducted with Princes Youth Business Trust co-ordinators who worked with young disadvantaged, potential entrepreneurs to work up a business plan. The table below shows the background of each research interview participant, and the date of interview.

Table 23 Advisors' roles

University Services Marketing Manager	16 October 96
Start-up Enterprise Manager	22 November 96
PYBT Co-ordinator	5 December 96
Bank Manager	6 December 96
Bank Manager	16 December 96
Bank Manager	19 December 96
PYBT Co-ordinator	15 January 97
Bank Manager	17 January 97
Business Link PBA co-ordinator	23 January 97
TEC IIP assessor	30 January 97
Group 10 PBAs Shropshire	5 February 97
Business Link PBA (Technology)	4 February 97
Business Link PBA (Finance)	4 February 97
Business Link PBA co-ordinator	7 February 97
Business Link PBA	14 February 97
Technology Counsellor	18 February 97
Accountant	24 February 97
Accountant	24 February 97
Business Link PBA co-ordinator	25 February 97
Accountant	27 February 97
Accountant	6 March 97
Accountant	10 March 97
Accountant	12 March 97
Accountant	12 March 97
Accountant	13 March 97
Accountant	13 March 97
Accountant	14 March 97
Production Counsellor	17 March 97
Accountant	18 March 97
Venture capitalist	18 March 97

The participants broke down into 11 accountants, 4 bank managers, 9 Business Link or TEC advisors (not including the group of ten Shropshire PBAs) and 4 others. In terms of the survey the sample in table 23 is overweight in Business Link and other agency participants. Nonetheless it is broadly characteristic of those to whom businesses go for advice.

3.9 Limitations of the method

The combination of the qualitative and quantitative methods described here provides a pretty good compromise. The intention was to go back and recheck all the findings with the participants but in the end it became infeasible to do this. The limitation of the method is that it is in a sense inductive. The research interview technique gave a real insight into the process of business advice. The interviews coded into clusters of three areas and the surprise was the importance given to control. The model developed does owe something to the idea of a conceptual leap, mentioned by Moustakas (1990) amongst others as a phase in the research process. To test the model and what is more important to test the ideas that following on from this a series of error messages are examined is difficult within the context of a questionnaire. Asking some key questions did this. The questionnaire then was as confirming evidence or rather potentially falsifying evidence.

The question of ecological validity is more of a problem with this research. The research interview did take place at the place of work of the participant. However, except for the case of the respondent who would not be taped where the researcher sat in on a real interview with a potential, and subsequent, new business, the interview situation was to some extent false. The questionnaire is also a crude method as it lacks requisite variety. Some respondents have pointed these limitations out on the questionnaire itself! Some questions' respondents found to be a straitjacket, some are not quite what they would reply given the full freedom of an open ended response, but this is inevitable in a questionnaire. The method is adapted to the particular framework of phenomenology. There is no attempt made here to test the views of the PBAs against a set of objectively derived data. Secondary data on the performance of SMEs is not presented along with the views of the respondents. The attempt here has been to elicit heuristics used by business advisors not to test whether they are, in any sense, 'right'. They might be the received wisdom presently dominant in business advice. The real point here I

think is to connect with the way in which experience and academic information is used in the practice of business advice. Thus new information, if it is to be useful to business advisors must be packaged such that advisors can use it. It does mean that the research is unable to answer questions that regard to whether such and such a factor is really associated with success. I cannot say yes or no to such a question. This does tend to meet with a variety of facial expressions from questioners that are not usually of a complimentary nature. Having said that; the research methods do manage quite well to elicit and to document the heuristics used by business advisors.

3.10 Validity

Regarding the criteria to evaluate research Gill and Johnson (1991) use four criteria to evaluate any research: internal validity, population and ecological validity and reliability.

1. Internal validity. Have the causes or stimuli produced the effects or responses? Were there confounding variables? Some other effect causing both cause and effect?
2. External validity. This refers to the generalisability of research findings. Can the research sample say anything about any other sample or setting? This, in turn, is sub-divided into population and ecological validity.
 - (a) Population validity refers to whether the sample is generalisable to a wider population that is, is the sample representative of the population involved?
 - (b) Ecological validity refers to whether it is possible to generalise from the context in which research has taken place to other settings. This relates to the artificialness or naturalness of the research. Experimental data might have low ecological validity.
3. Reliability. This is about consistency. Would a subsequent investigation find the same explanation as the researchers found?

Gill and Johnson apply these gauges to a cross-section of research methods to give a feel for the trade-offs involved in research. In laboratory experiments, for example, independent and dependent variables are defined and controlled, in highly structured circumstances. These are replicable, and by controlling extraneous interfering variables, the link between cause and effect is relatively transparent. The strengths of the method are the internal validity and replicability. The weaknesses are the artificial nature of the environment and often the sample. Experiments are low in ecological validity. There is a danger that the peculiar surroundings make generalisations difficult to make with a great deal of confidence. Moreover, in my view, the significance of some extraneous variables will be lost, and, though this will not damage the method itself, it does suggest that the data might 'miss the point'. Thus research might take a very roundabout route to the explanation. Further, the samples in experiments are often unrepresentative, although the method could easily cope with this. Hence, experiments present high internal validity and easy replicability but are weak in ecological validity and, often weak in population validity.

To overcome the weak external validity researchers have taken experiments out into the field in quasi-experimental and action research methods. By doing this, however, the methods lose some of the internal validity of the laboratory experiment. In addition, the quasi-experiment become more difficult to replicate and finally the sample is often not random or of sufficient size to give population validity. In essence there is no perfect method, all involve trade-offs and weaknesses.

The survey method gives high population validity, and is easily replicable. Yet its internal validity relies on correlation rather than causality, giving some weakness in internal validity and the questionnaire design leaves little room for naturalism, so its weakness is ecological validity.

Ecological validity is the strength of ethnographic or qualitative methods. The study loses replicability, however, by being true to the field of study. There are some debates about the other criteria and ethnography. Mitchell (1983) disputes the received wisdom that ethnographic methods are low in population validity because of the small number of subjects. The question of internal validity is more problematic too.

First, the method cannot eliminate researcher subjectivity, though the biases should be acknowledged, and some attempt made to consider the effects of said bias. The naturalism of the method carries with it difficulties in establishing experimental groups, control groups and the paraphernalia of experimental design. For all this though, the large quantities of data produced inductively are the most likely to identify the variables for any subsequent analysis. The researcher is more likely to consider the factors that are important for the study. Moreover, factors that are not considered on a theoretical level or because of measurement obstacles and variables not involved in a preconceived notion are more likely to be included in the study. Cooper (1995) alludes to this problem in a critique of entrepreneurship research. Gill and Johnson conclude:

it seems that the internal validity of ethnography is problematic as it depends largely upon rigorousness and the specific concerns of the ethnographer. When that entails analytic induction and reflexivity, the internal validity of the ethnographer's theoretical conclusions may well be very high in comparison to many of the deductive approaches (Gill and Johnson, 1991:125).

The arguments over validity probably replay the discussions that have already taken place during this chapter. Nonetheless, they are crucial. As stated there are four elements to validity. A fifth that I might add is does the questions and responses answer the research question and problem that you seek to answer. In other words, are you testing what you think you are testing?

In terms of the first four elements then: the internal validity of the research is good. There may be a tendency by one or two respondents to gloss over the truth and to dress up what they do in a manner deemed more acceptable to research, hence the usefulness of more open-ended questions in the research interviews. However, the question of tidiness in the workplace might be deemed unlikely to attract much academic support, yet respondents almost to a man confirmed tidiness as an important indicator of SME success. In a sense the question one is asking is quite nebulous. As a business advisor one tends to use outward behaviour to assess management capability, an inward phenomenon. The internal capability of an individual or team is assessed using external factors. This is partly what creates the requirement for judgement.

Now testing this is quite difficult. To ask the participants to take part in research interviews is the quickest way to access the methodology used by the business advisors. Other methods such as participant observation or discourse analysis of the documentation might also be considered. The researcher's experience as a PYBT advisor did add some participant observation to the research. But participant observation would narrow the population studied dramatically and one of the assumptions made is that methods and factors differ from different experiences. Thus you might find more internal validity but only for one institution. In the second, apart from the difficulty of access, there is a filter already applied to the assessment by the time that document is written. It might be written up in a standard format, for example. It might be useful for a follow up study to try to do this. Overall, then internal validity, is relatively high in an open-ended research interview.

Population validity in the research interviews is relatively weak. Although interviews concluded with 39 individuals, including one group, which by grounded theory standards is more than enough, they were a heterogeneous set of business advisors. This is the opposite of the process of Strauss and Corbin's theoretical sampling. The idea behind the grounded theory approach is to firstly derive theory concerning phenomena, from a homogenous group.

Following this group to seek more heterogeneous respondents so that the limit of the ability to generalise can be set. The method here did not follow this procedure, although by interviewing SME managers a type of theoretical sampling could have been used. Instead a different method, the questionnaire, attempted to generalise the theory to one population. This does leave the question of where else the theory would apply unanswered. What it did do, however, was to clearly answer the question regarding whether the theory can be said to cover the population of business advisors, in addition it enhanced the credibility of the research through the use of different methods. As Eisner argues: *'We seek a confluence of evidence that breeds credibility'* (1991: 110). The study in terms of business advisors has excellent population validity depending upon the response rate and the significant difference between those responding and non-responders.

Ecological validity was relatively high in the study. The interviews were held at the respondent's place of work in an area where they might interview potential clients. However, a participant observation study might have increased ecological validity at the expense of population validity. The internal validity and ecological validity meet in the problem of responder truthfulness in the research interview. If the researcher had accompanied the business advisor to the client, then accessed the documents and written reports then this might have both internal validity and in the former case ecological validity.

Reliability I suggest is relatively high. The research interview protocol and the questionnaire are both presented and a researcher is quite able to take these two and replicate the research. Though the argument is made against qualitative research that is less easily replicable it does not seem to be all that difficult. You can take the same research question and use a different set of respondents and consider whether there is any difference in the findings that you come to. Questionnaires of course are quite easy to replicate.

This brings me to a crunch question. Do the questions on the questionnaire fit with the theory derived from the research interviews? The theory presents the key problem as one of making sure control is present in the firm and many of the statements concerning the firm are precisely to uncover this. The division of management function into three areas is presented at the end of the questionnaire. The questions regarding, for example, the hallmark of a well-managed firm is that its objectives, strategy and control are well aligned is a bold statement of the theory. Respondents are asked whether they agree or not. From that point of view it does test the theory and the theory is capable of being falsified from the questionnaire. By combining the qualitative and quantitative techniques herein, this study has covered the issue of validity well.

The triangulation of qualitative and quantitative methods in this study enabled the research to build theory regarding the business advisors' heuristics for assessing SME performance and generalise these over the population of Business Link PBAs. In doing so, the methods enabled revealed issues such as inferred capability from one behaviour to another area, along with some processes involved in the phenomenon. The research thus considered factors from the practitioner's viewpoints rather than restricting factors due to ease of measurement. This gave an opportunity for the participant's views to lead the research, leading to a more rounded investigation of the task of business advice.

The methodology chapter discussed the issues surrounding qualitative and quantitative research. It noted the differing epistemological views that underpin both traditions but this research adopted a pragmatic approach where both qualitative and quantitative research methods combine to triangulate the results. The research methods involved research interviews with business advice practitioners followed up by a survey of Business Link PBAs. The findings from these are the subject of the next chapter.

FINDINGS

4.1 Introduction

The data from a qual-quant research project lead to two stages of findings. Presentations of findings in these two traditions are to use words to tell a story on the one hand and to use statistics to validate hypotheses on the other. Qualitative and quantitative data are presented in different ways.

The history of the research project was that the qualitative data was found first. The presentation of the results then follows this pattern. The qualitative data presented first, followed by the quantitative data, and follows the sequence of events as they unfolded. Given the quantitative data relies on the qualitative analysis of interview data, this appears to be a sensible way to continue. This does mean that there is a sense of presenting two sets of findings.

Findings presented to what end? The findings suggest a practitioner-based model of SME management. To put the findings in this context, the chapter presents the model first. Thus, the model presents the connections and themes developed from the research interviews. The chapter then is not chronological but, rather like the short story, the key scene comes first and the rest is in flashback.

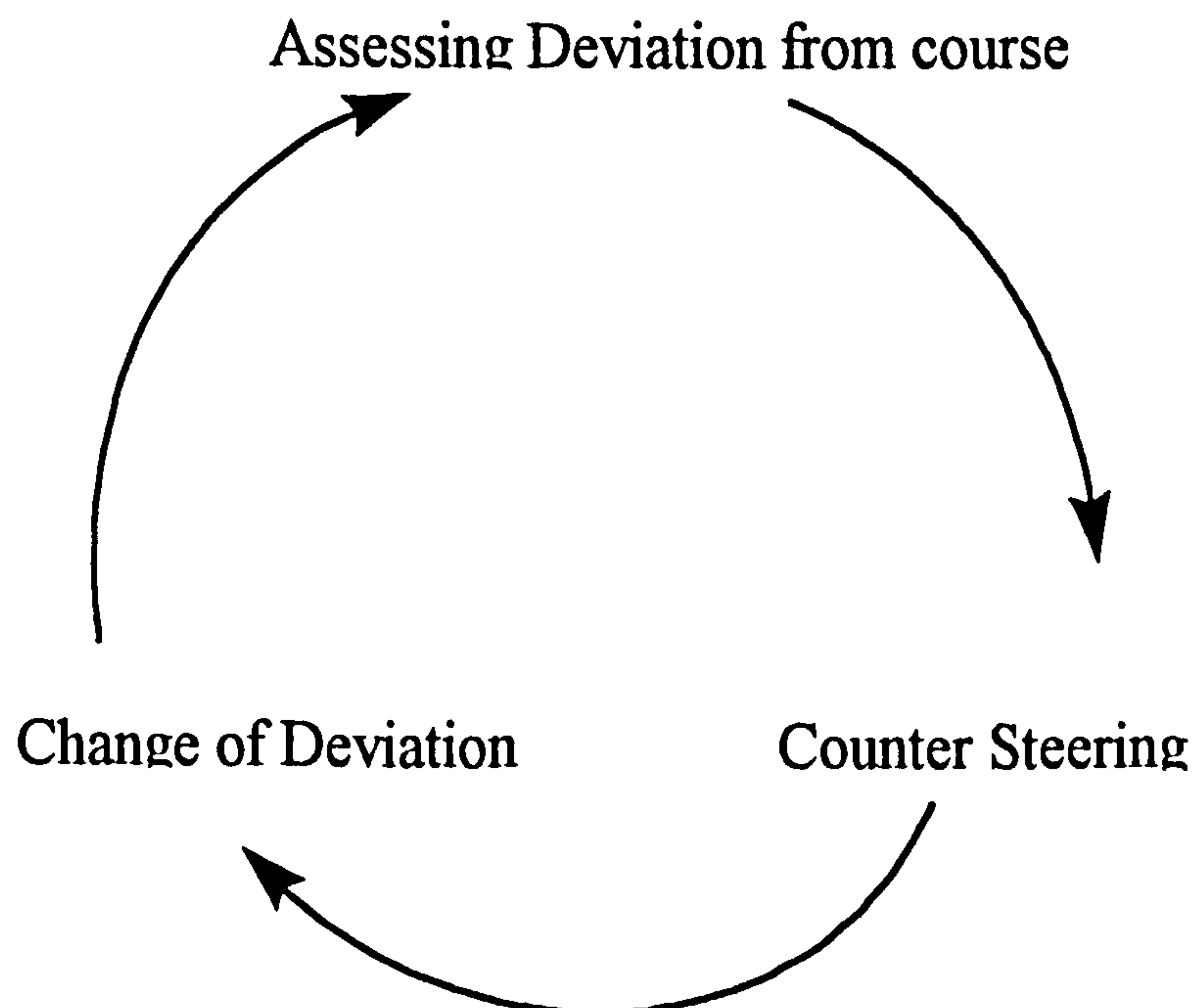
The first set of findings concerns the interviews with a wide variety of business advisors, the second with advisors from business links. Data from the interview's content analysis informs the model of business advice, which the questionnaire then aims to find confirming or falsifying evidence.

4.2 A practitioner-based, systems model of SMEs

The challenge for researchers is to model advisors' perceptions of SME management. The model attempts to represent the internal and external processes within small businesses, and the model developed from the analysis of the research interviews. Developed from semi-structured interviews with 17 business advisors ranging from Business Link advisors, bank managers and business start-up counsellors, the model draws on developments within academic thinking that focus on the importance of 'systems'. The key concept of the model is a feedback loop.

Feedback loops are a circular arrangement of causal links such that each affects the next and eventually back to the original thus producing a self-regulating (homeostatic) system. The simple example given in Capra (1996) is of a feedback loop representing the steering of a boat: see figure 7.

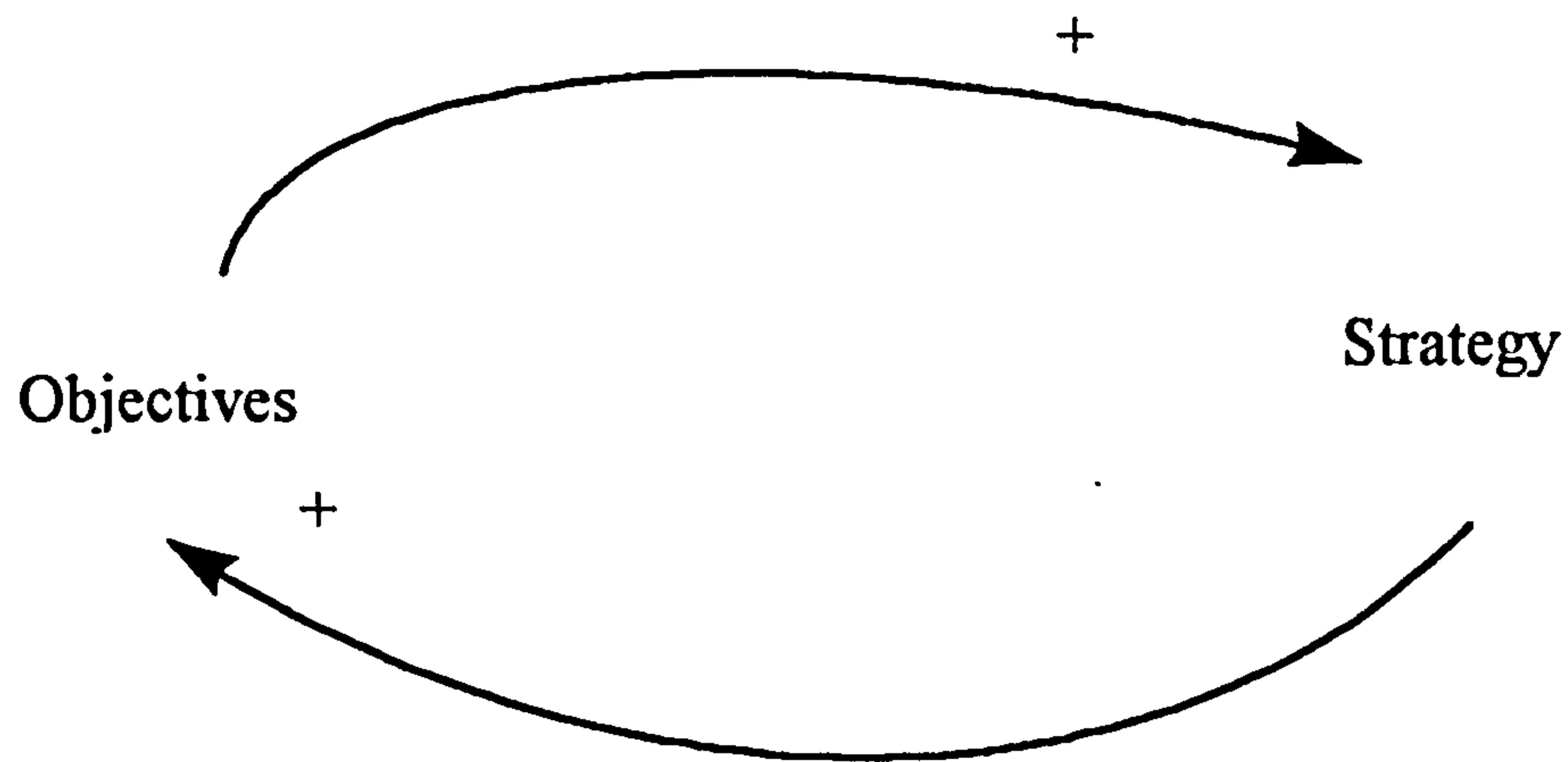
Figure 7 Feedback Loop - Steering the Boat



The feedback from assessing the deviation from the course is used to counter steer the boat. Also sometimes referred to is the principle of 'cybernetic' control where the word cybernetic is derived from the Greek for 'steersman'. The feedback signals the changes in direction and the deviation from the course passes around the loop. The link between assessing deviation from the course and counter steering is a positive link because the link amplifies the previous link. The greater the counter steering from the course, the greater the change of deviation. The next link is negative because it curtails the previous link. The greater the change of deviation, the less the resulting deviation from the course. Cyberneticians say there are two kinds of feedback loops, self-balancing and self-reinforcing. Self-balancing feedback loops need an odd number of negative links. The example above is a self-balancing loop. Feedback loops create self-balancing systems capable of adapting themselves to changes in the environment. This is a useful concept for small business management.

The more the SME owner wants to grow, the more output, production and sales the strategy will have to produce. So objectives and strategy are positive links. The greater: the greater, see figure 8.

Figure 8 Feedback Loop - Objectives and Strategy



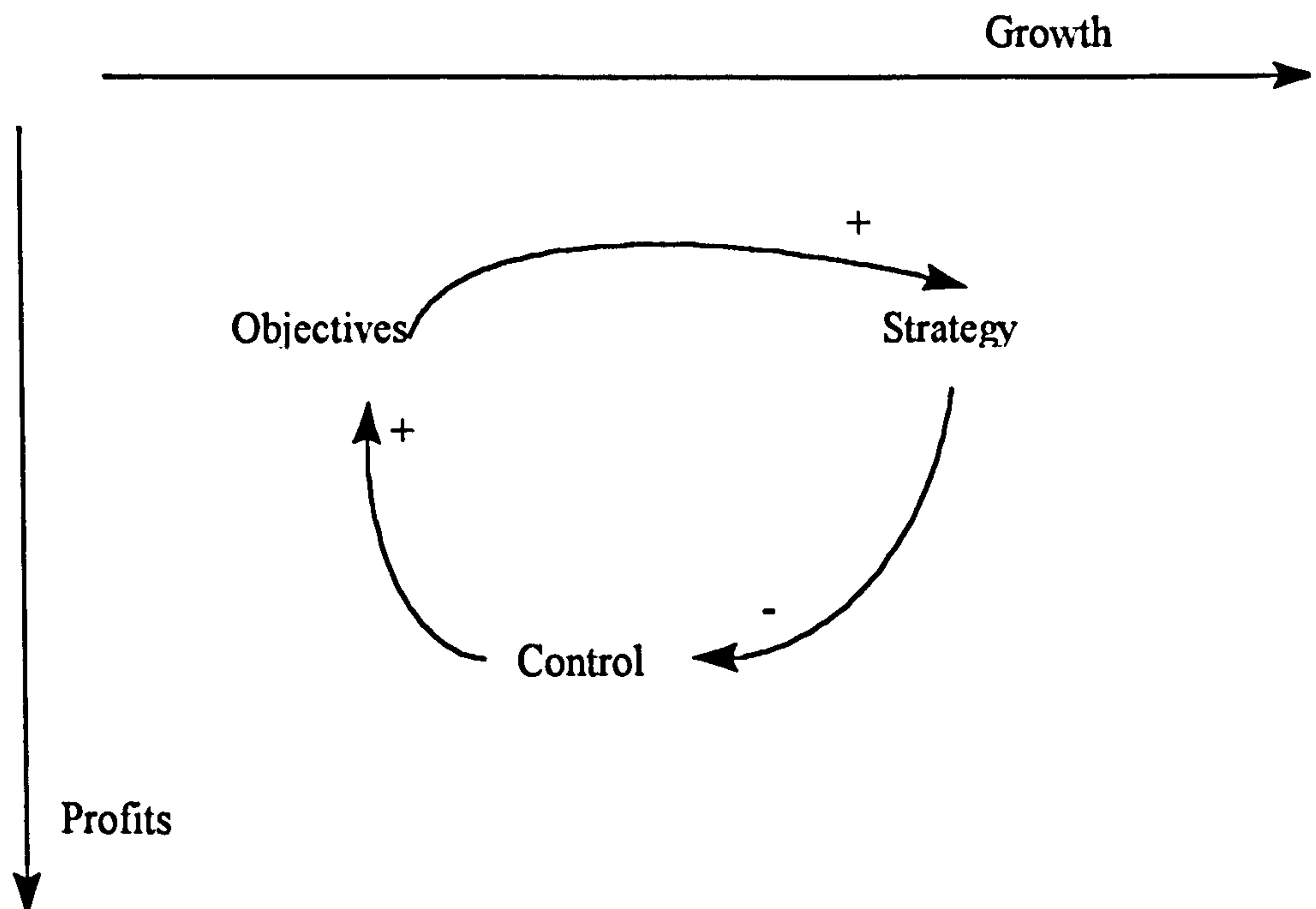
For example the SME wishes to grow by 10%. The strategy to put those objectives into practice is to increase marketing effort and sales. If successful, next year the firm's objective may be to grow by 10% again or by 15%. Meanwhile, the firm may be heading towards the rocks as increased sales are 'bought' through lower prices and increasing turnover requires more working capital - overtrading.

Such dangers even for apparently successful firms are due to the lack of management information and control, the lack of a negative feedback loop. The simple point is that a company without firm management control has no mechanism to self-balance and is inherently more risky from an investor and an advisor perspective. A PBA advisor mentioned the challenges and remedies in

Warnes (1984). Yet if managers measure success solely on turnover growth, as many businesses do, these problems will, at some point occur. An interviewee said: *'if we're looking to lend erm... would inquire about it but I think, at the end of the day all we're looking for is control, and a well run company.'*

Now what would a self-balancing loop look like for a small business? Advisors may be seen as if they are concerned to confirm or initiate a closed feedback loop within well-run small businesses that match objectives, strategy and control. Control provides the negative link because the greater growth; the less control, pushing the firm into cash flow difficulties. The key issue is to establish whether this element of control exists. Control will requires the strategy to generate profits and cash and for the owner to know his position. An organised (tidy) place of work is considered a strong signal of control by PBAs. A business with this feedback recognises, and can adapt to changes in the environment, which impact on the business. Without control, the steersman has no stars to guide him. This loop is shown in figure 9.

Figure 9 Feedback Loop Small Business Control

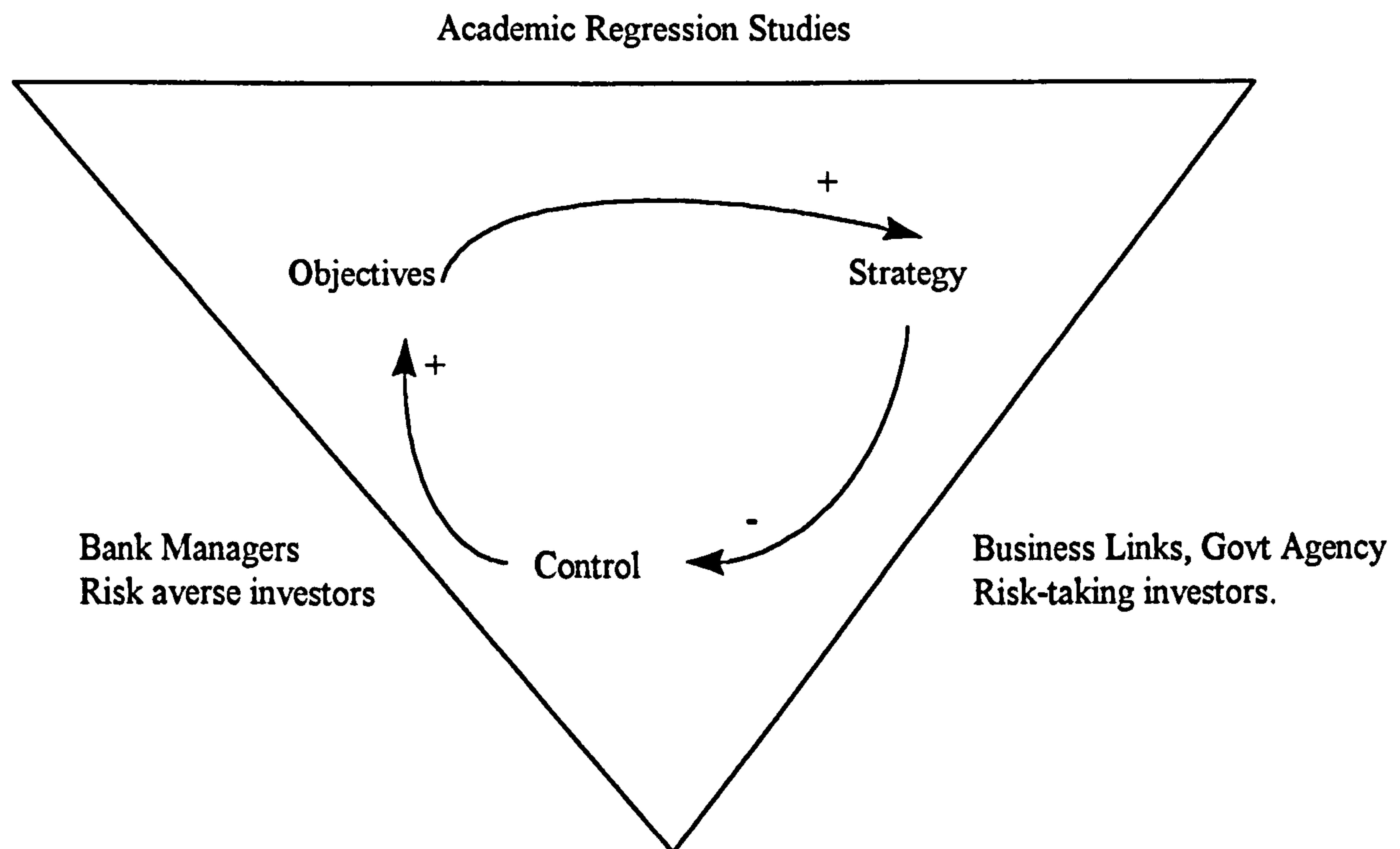


The first question for PBAs to evaluate might then be the element of control. A second issue may concern congruence between strategy, objectives and control, whether strategies and measures reflect company's objectives. A way to consider views here is as error messages from incongruity among these three themes. For example, the objective to increase profits when the company heavily discounted sales gives an error message.

The different elements of this model appear to be of more interest to different stakeholders in the firm. For bankers the element of control and the objectives of the management are important, reflecting an interest in the profitability of the firm but less interest in growth. Academics have tend to neglect the area of control in regression studies. Business Links are told to find firms with the ability to grow that means the objectives of a firm are given in their terms of reference. PBAs highlighted the objectives of the business owner; despite the

remit of Business links to help firms with the ability to grow. Every firm is different, they said. Equity providers such as venture capitalists, though a small part of the SME world might be interested in control and strategy; they will assume the objective is that companies want to go public. So putting interests of actors on two of the corners of the model yields figure 10:

Figure 10 Interests and Small Business Management



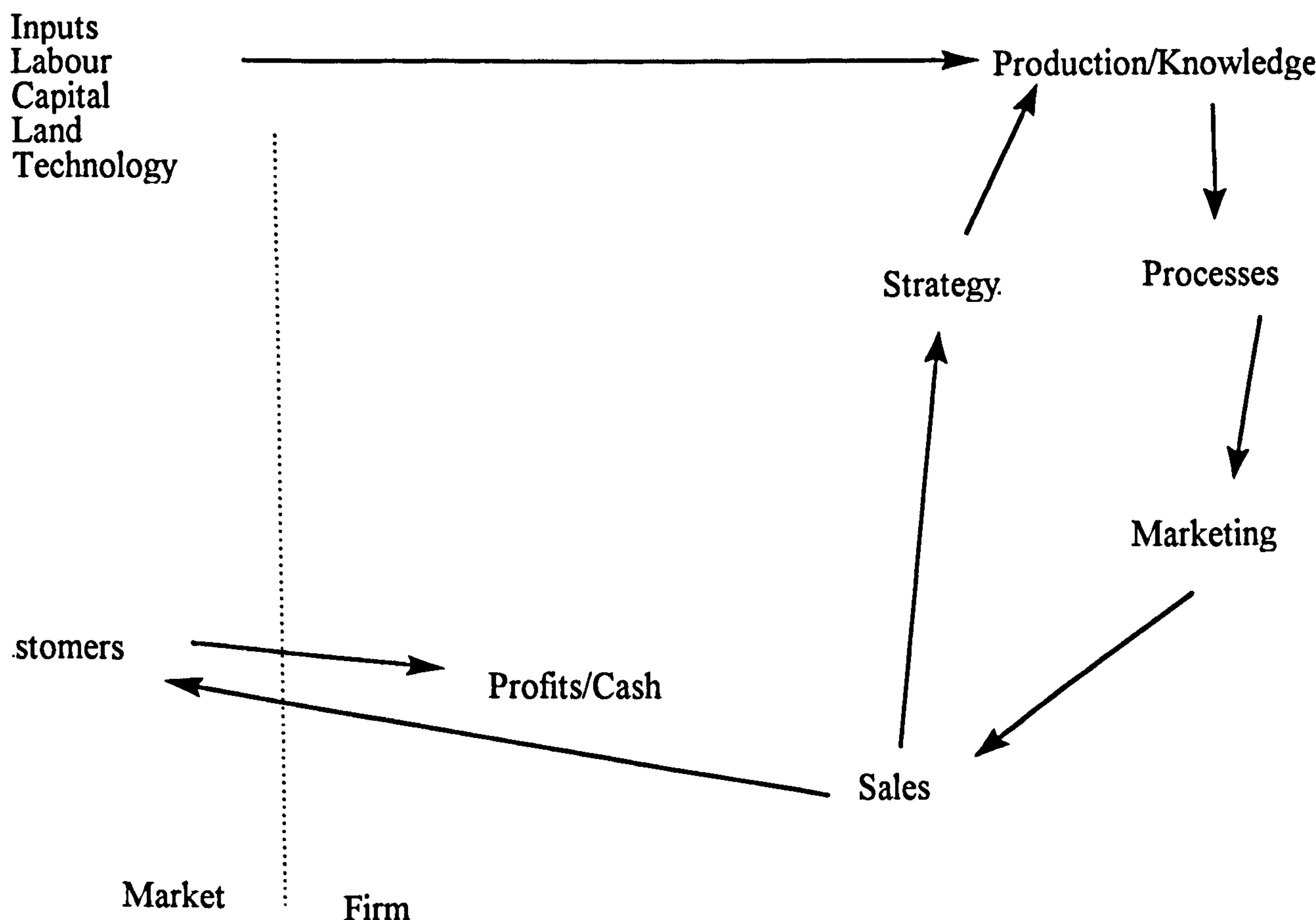
Do different firms have different emphases? Are there growth-oriented firms for whom profit margins would be sacrificed for increased sales, and profit-oriented firms for whom profit margins would not be shaved for sales?

4.3 Open and Closed Systems

The feedback loop with control is a closed system but the firm is also an open system because it takes inputs from the market, land, labour, capital, material

and produces a service for consumers. This model of the firm fits an open process around the closed managerial process. The firm takes inputs from the economic system and, using knowledge and production technologies (including services), processes and organisation, creates marketable products. If the products are not marketable, then the firm has a strategy problem, to say nothing of control. The process from inputs to sales is called the strategy of the firm in this model. Customers' cash for the product or service pays for inputs, with a surplus for capital depreciation and a return. Monitoring the profitability and cash position of the firm provides control. Arrows surrounding the closed system represent what the firm does. A difficulty here is the role of organisation and culture that we have conveniently forgotten. Is this part of control, strategy, or both?

Figure 11 Open Systems



The model is then a closed managerial self-correcting system surrounded by an open production system. SME advisors make sure the closed system is working: ensuring control is present as well as the usual marketing, productivity and exporting advice.

Figure 12 Open and Closed System

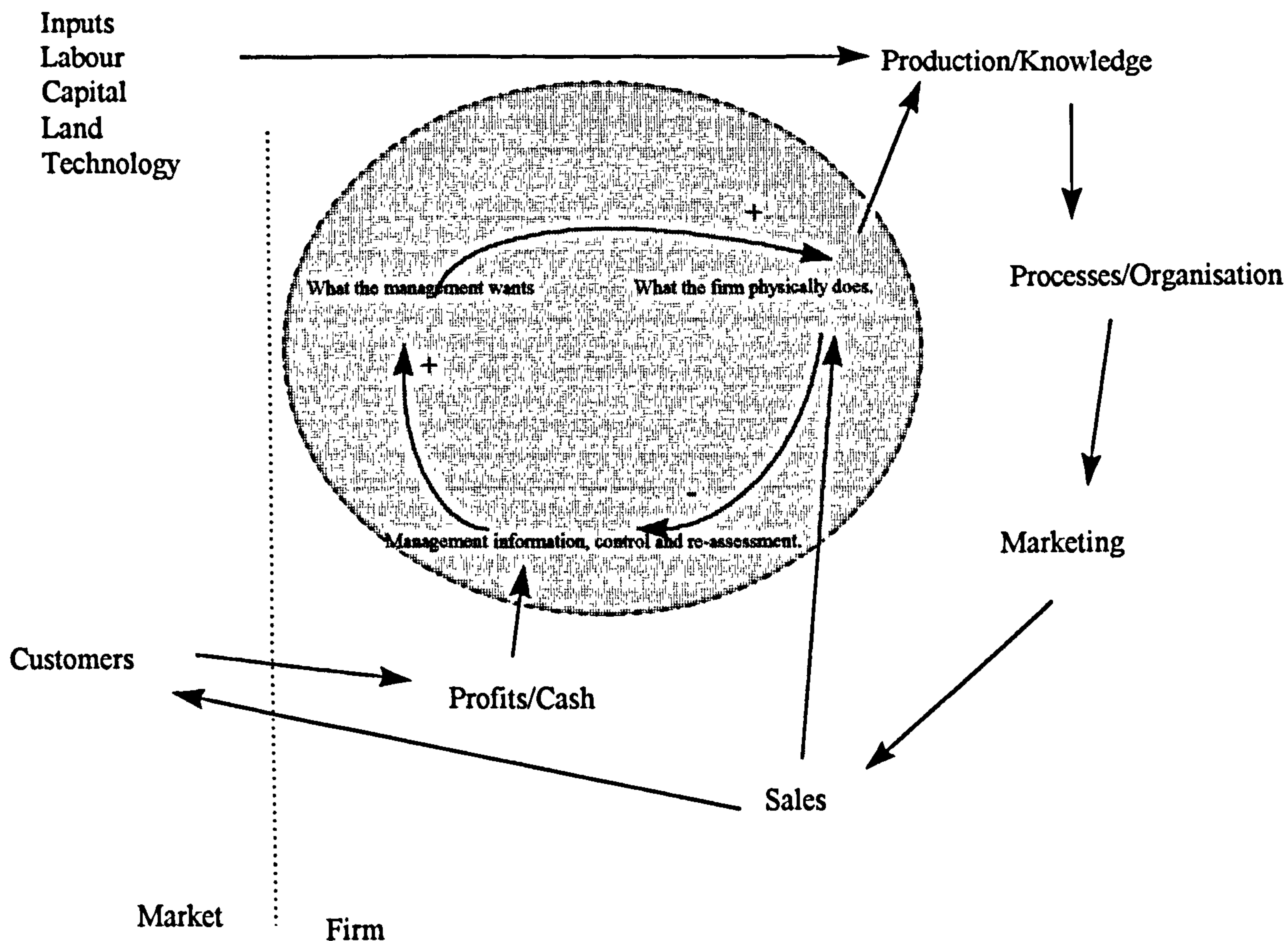


Figure 12 puts the model together. The open system, denoted in figure 11, envelops the closed feedback loop, introduced in figure 9. The significance is that in trying to understand and evaluate the SME, advisors concentrate on the closed internal system rather than the open system with which the manager may be overwhelmed. This can lead to misunderstandings. SME advisors openly admit that they do not know, and cannot know, all about the particular industries and sectors within which the firm trades, although they want to

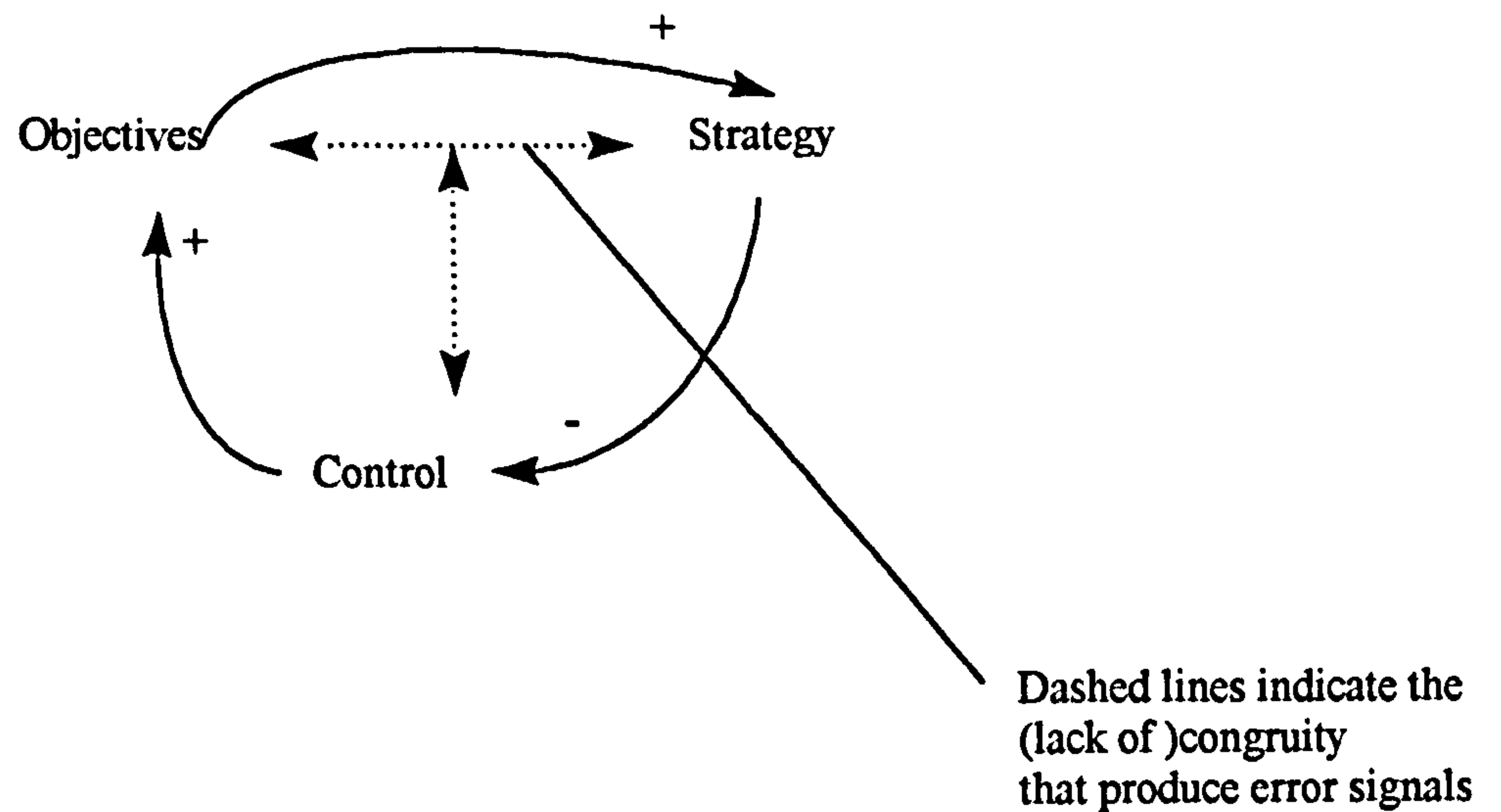
check that the management knows this. Small business owners might consider that the advisor has no knowledge of the industry and generalises this lack of knowledge. This model shows that the reason for this is that the two concentrate on different systems.

Practitioners learn on the job to supplement their existing knowledge. The interviews with advisors informed this conceptual model. Advisors are much more concerned with issues about control in the business. Academic research has largely emphasised the capabilities of the individual and the strategies adopted by businesses that may be easier to measure than such concepts as tidiness, staff attitudes and organisation, concepts understood and used by practitioners.

4.4 Error Signals Interpretation

Another way to look at the heuristics is to consider the model a cohesive framework for looking at small businesses. In this way then there is a higher-order model. Although the first step maybe to identify control, to talk about vision with the manager and to tease out the, often implicit, strategy of the firm, the higher-order version of the control model is to assess the match between the objectives strategy and control. One can re-code the research interviews looking for mis-matches or matches between strategy and objectives and strategy and control. What you find is a whole list of error signals, either positive or negative. In terms of the model considered, the error signals form a T.

Figure 13 The Closed System and Error Signals



It is this search for congruity that makes the error signals stand out. Re-coding the research interviews reveals a long list of error signals. Thus, not only are PBAs using heuristics to discover the existence of control and its role to enable strategy and objectives to be realised but also the heuristics provide a list of error signals. The model in figure 4 depends upon feedback for its structure, the feedback available within the firm. Thus, the feedback for the firm is indicated by the element of control. Feedback for the PBA, however, involves another level of messages. For the PBA not only will they want to know that the feedback mechanism exists so that the firm can control itself, but also they would like to assess the congruity between these factors. Why? Because if congruity exists then the system of objectives, strategy and control will be working effectively. An indication of objectives and strategy being out of sync indicates that the feedback mechanism is not doing its job. Cybernetics links control mechanisms in the natural and mechanical sciences. The term was coined to cover work on the theory of messages and how those messages were communicated (Wiener 1948, 1950). The key concept in all this is feedback. Feedback transmits performance information back to an earlier stage to modify

its operation. Negative feedback reduces the difference between actual and intended performance; whilst, positive feedback reinforces a change and instability, for example, when people shout in a public bar, increase the general noise level and cause others to shout. Wiener believed that problems of control engineering and communication engineering were coupled. The core concern then is how messages are sent. Moreover, the extent to which a message was signalled and the message deciphered from background noise is as important. The messages also involve hierarchies. Control involves some constraint, and this means one level must be constraining another. Generally hierarchical control exhibits three properties.

1. Constraint involves an imposition of higher-orders.
2. Imposition must be optional in which, neither too tight nor too loose. The constraint is not operative all the time.
3. The constraint acts upon the detailed lower level dynamics.

The basic idea in communication system engineering is that information sources produce messages. Signals produce messages along channels, which are subject to noise. The extent of the distortion of the message is a problem. Wiener (1948, 1950) suggests three problems:

1. the technical problem - signal transmission;
2. the semantic problem - how symbols convey meaning and;
3. The effectiveness problem - how the meaning affects the receiver's behaviour.

Points 2 and 3 depend on point one.

The use of error messages then will indicate that effectiveness of Wiener's points one, two and three. Given congruity between the objectives, strategy

and control then a feedback transmission must be present, meaning must be conveyed and the meaning must affect the firm's behaviour. Consequently, the use of error signals between objectives, strategy and control to assess congruity is eminently sensible.

The model presented developed from the interview data. The next section presents this interview data in terms of the responses to the interview prompts.

4.5 Data for each question presented

The interview protocol was developed through the first, pilot interview. Semi-structured interviews were used to encourage participants to share their views regarding advising small and medium sized businesses.

Firstly the researcher explained the purpose of the research. These often elicited responses to clarify the terms used. Performance for one thing can be defined in different ways.

Following the practice of many of the researchers on small business the growth of the firm is seen as reflecting good performance. Thus a successful firm is one that grows and growth is defined in terms of increasing the number of employees over time. The best performing companies, therefore are those companies that grow from a one person operation through to a firm employing more than 100 and then more than 500 employees. Hence the best performing SMEs grow out of SMEdom as it were. Many respondents disagreed with this tack.

As I explained what I was doing respondents discussed the issues surrounding growth and measurement. Different participants measured growth in different ways. I followed much of SME literature in defining growth in terms of turnover.

A PBA believed that the issue is whether there were signs of a commitment to progress, however. He saw working conditions as a demonstration of

commitment to the staff, with negative impressions given by *'if you've to climb over a load of cardboard boxes to get to the office'*. Displays of health and safety messages, displays of something that they are proud of in reception, and commitments to training all indicated commitment to staff, and therefore progress, argued this PBA.

Some mentioned the question of profitability as opposed to turnover as a measure of success. A PBA with a background as a bank manager suggested that turnover measures of growth were macho. He quoted an aphorism: *'top line is vanity, bottom line is sanity'*. Moreover after profit the role of cash was brought up. These advisors were concerned that the business had enough cash to support their level of operations or growth. They pointed out that business could be profitable but cash poor, which might lead to possible insolvency. In addition, small businesses can be unaware of the pitfalls: *'It's very difficult for someone who's sunk his life savings into something, Suddenly to be told that there's no money in the bank,'* said an accountant.

Further, advisors discussed the motivations of those in charge of businesses. One PBA suggested that:

I can certainly think of two where money is doesn't even come into the equation the reason they're running the business has nothing whatever to do with making money being secure being comfortable. Its driven by something absolutely different and not even business-related. Right. But they're in business and they're trying hard and I think they're worthy of support.

(PBA)

A PBA manager referred to the will of the owner/managers. In contrast to the previous respondent he argued that the PBA had to differentiate lifestyle businesses from those that wanted to grow. An accountant noted those businesses that showed potential for further business.

The discussion of growth in terms of turnover raised two issues, measuring success and the motivation of the owner/manager. Advisors stress that turnover must be converted to the cash and profit for the company. Top line versus bottom line. In this they reveal a risk-averse position essential for survival. Survival may be the major objective of the firm's owner rather than growth, and advisors need to work with the desire of the company's directors.

4.5i visit

The second question asked about visiting companies. This elicited a number of responses pertaining to the participants' individual positions. I then asked whether the participants could talk me through a visit. I wanted to know whether there were key things that participants would do.

A bank manager talked about why he visited businesses. He stated that they visited 80% of the 1400 businesses that they look after. The manager went to see businesses twice a year, even if the company is in credit: once to examine the financial side, and once as a 'general chat'. The bank manager looked at the machinery and stock and gave advice on various options open to them, on projects, staffing problems and ways of saving tax, for example. This same manager discussed the changing relationship between bank managers and their business customers. He reported: *they now see us as a supplier of services that they can get from, not only through the high street banks but through different channels such as computers and telephone banking that sort of thing.*

A PBA manager explained the processes that PBAs go through. He discussed the questions that PBAs were expected to ask when visiting clients. The manufacturing section contained only two questions: what are the production processes, and what are the perceived weaknesses in the process? Thus, he suggested that these were aide-memoires rather like semi-structured interview prompts, which he contrasted with a rigid tick-box approach. In his organisation PBAs are expected to think creatively and write reports using their experience. Although financial ratios were not requested, experienced PBAs

reported by exception. An example was debtor days. Traditionally debtor days should be between 30-45, if debtor days are between 75-80, and the firm carries a high overdraft, then this might indicate cash flow difficulties and that debts are not being chased hard enough. The same interviewee was concerned about the amount of management information, collected, delivered and analysed. He felt that this was essential for a company to know their direction: included in this information would be a business plan.

More specialist advisors concerned themselves with their specialities. A technology counsellor concerned himself to eliminate waste from the shopfloor, though even he used accounts as part of a diagnosis of the business. A second technology counsellor confirmed that they assessed the general aspects of organisations gained from walking the premises. Again this advisor linked a tidy, well-laid out premises and caring management. Further, the counsellor believed that the manager's manner and appearance reflected the business organisation.

The group of ten PBAs visited to establish rapport through empathic listening to the owner/manager's views. A bank's small business lending manager explained the thinking behind visiting premises. He believed in visiting clients. In a small hotel you look for things such as the decor, whether the hotel felt comfortable, just like a customer. In a manufacturing firm the manager looked for the movement of stock through the premises, whether machinery handles signified its continued use - without use the lathe handles become very dull very quickly. He wanted to examine the relationship between proprietor and bookkeeping. All visits required a clear idea of what you wanted to see to make a judgement about the firm, believed this lending manager, the hotel's decor and ambience, the manufacturer's materials flow and machine use, and the service industry's prompt phone answering.

Business advisors use visits to assess the quality of management. Tidiness, for example, and the layout of the business infers a capable management.

However, there are no stereotypical companies and the background of the advisor makes a difference to the quality of the relationship between client and advisor. Presumably the personality of the client affects this relationship too.

Advisors are in some sense expert SME assessors. The research asked about how advisors go about their task in a question that in some ways overlaps with the last question.

4.5ii expert

The bankers were concerned about the financial side of the business. However, with numerous ostensibly healthy firms liquidated in recently, the managers were keen to get timely information.

A bank manager would ask for three years accounts (profit and loss account and balance sheet) from a going concern that wished to bank with them. They bank looked for rising turnover, steady profit margins, controlled overheads; and that the bottom line results reflect these top line increases. The balance sheet reveals whether they invest or divest. The combinations of all these factors make the business a success. The bank would calculate: gearing, stock turnover, creditor and debtor repayment, gross profit margin, and the breakeven point to check: *'(a) if they've performed to the same standard as last year and (b) whether they are in fact in line with the rest of the industry'*. The manager commented: *'...the biggest word for us is trends'*.

For a start-up business co-ordinator specialising in disadvantaged young people a more hands-on approach was needed.

99 per cent of people I see don't know a business plan from breakfast time.

So in the beginning it's an idea. In the norm we would look to see (a) is that person qualified, and if so could he or she obtain letters of intent. In other words have they got sufficient contacts within the trade to make a go of it. Now if they have the experience, more often than not they can get those letters of intent and they can at least break-even. (PYBT Co-ordinator)

Another bank manager discussed the competition faced by the SME. In response to: would you expect them to know who their competitors are? *'Absolutely. they do know who their competitors are,'* he said. He expected a reasonably comprehensive competitor analysis, but small retail outlets took too small a market share to do this. And, he questioned whether suppliers posed any risks of disruption.

A PBA manager suggested that small businessmen knew their problems. For example, they usually knew that 110 debtor days were excessive. If the PBA gained the businessperson's confidence, they became someone to talk to about the business because the MD of an SME was a lonely job. After the PBA establishes rapport the owner may open up:

he'll say 'I have thought about this, have you you know well do you know anyone who's got experience of doing this bit of business or that?' And then they start to open up, it works very well. (PBA Manager)

Again the difference between specialists and generalists came up. At one Business Link two specialist advisors explained their role. After the generalist business advisors wrote their key issues report and carried out their diagnostic business review, they introduce consultants. The specialist advisors in this Business Link resolved finance or organisational issues quickly without the need

for formal consultancy. For example, a business experiencing bank problems may need to present information better, or the business may want more money but *you find very quickly that they need more debt finance like a hole in the head.*' All these advisors went to Durham University Business School (DUBS) for introduction training. The course, according to the advisor, focused on the financial management suggestions of Warnes (1984). These advisors believed that persuading a few more companies to plan ahead it would be worth it.

The bank managers were comfortable with the financial side of SME assessment. The non-bank managers emphasised non-financial aspects but all emphasised control.

4.5 iii personality and skills

Entrepreneurial research stresses the attributes of the individual SME manager. I asked about the personality and skills. Did they think it was important? What they thought about the individual manager. A University Services Marketing Manager suggested the importance of the manager's vision. Although a recent client did not understand the technology in a project she understood the market implications. Often the small business' managing director is several things in one. The company manager must, according to the University Service Marketing Manager, improve competitiveness, including attacking new markets and developing new products.

One start-up co-ordinator believed that the key was determination, indicated by the quality of market research - understanding risks, predicting market share. A bank manager wanted to understand why the owner wanted to start a business. Although redundancy or as a hobby were poor reasons to start a business, he did mention a case where a group of managers in a factory facing closure, contacted customers, bought out the business and started trading successfully. A bank manager explained that those who knew their cash position commanded more trust than those who did not. The youth adviser pointed to the element of which service sector the proto-company inhabited. In the West

Midlands, the PYBT co-ordinator reported the results of a comparative analysis of over 5000 business supported since the in the last ten years. The most risky ventures were car valeters and graphic designers. Car valeters undercut each other constantly. Their market lacked order.

A PBA manager, who believed that this factor drove companies onwards, talked about the chief executive's vision and his ability chief executive to make decisions. He argued that a company with 50 employees and a management structure needs a top manager capable of making decisions. If the top manager is poor at making decisions, not that they make poor decisions, the company flounders. Further, the top manager needs a certain amount of product knowledge, the ability to lead a team (because all companies are run by some sort of team), and they need vision. Companies where the top group knows what they are trying to achieve invariably get there. Again the technical or financial expertise need not reside in the managing director.

One PBA advisor mentioned the personality trait approach but even then it was in the guise of entrepreneurs being at the tail end of distributions rather than a set of personality traits. He argued that the atypical business owner was a character with a high self-regard who delegated reluctantly.

Finally in this section a technology counsellor pointed out that management can be the problem, and at the smaller end an accountant made the same point. The accountant argued that many small business people managed badly, failed to control paperwork, failed to collect moneys owed, and failed to control outgoings. You had to judge the individual personality of each client. The technology counsellor said:

And sometimes companies are successful despite the MD. You know the MD is the biggest problem really. And that often comes out when we start doing the workshops with the workforce. But we tend to do that work with companies with more than about fifty people. (Technology Counsellor)

Clearly, the personality, and management skills, of the small business owner are deemed to be very important. This is particularly true at the start-up and smaller end of the small business. The specific skills, however, are not crucial.

4.5iv innovation

Next the questions talk about different specific areas, firstly innovation. The University Services Marketing Manager noted the relationship between innovation and SME success. He stressed innovation because surveys and his experience revealed that those prepared to consider new markets, methods and products were more successful. Other respondents suggested that most businesses were not innovative. *I would reaffirm that the majority of ideas involve pre-existing services*', suggested a PYBT start-up co-ordinator.

The three views noted above may not be incompatible. It might be that innovation and the ability to exploit new markets are associated with Storey's flyers the 4%. For less entrepreneurial firms, the vast majority, innovation is not high. A discussion about innovation by advisors leant toward considerations about environmental change in markets. Thus directors must be aware of new ideas and developments in the marketplace.

Some pointed out drawbacks to innovation. Innovation and sensible working practice must work together and new products should enhance rather than hurt their existing reputation.

4.5v formality

From innovation one turned to the formality of the firm Olson and Bokor who suggest that the role of business planning can be correlated with high performing SMEs.

KM And are you ever concerned about, if you like, the formality of the firm's processes? A bank manager explained: '..at the very bottom end of the scale, that isn't the area you want to focus on. You have to accept I think that

business is done in a very tacit manner.' Another suggested that lending managers discern the good managers, over time, by the paper they produce and the organisation in their premises. A PBA suggested that planning was important, that his task, as he saw it, was to introduce business planning and market research into a company.

4.5vi technology

I asked about the role of technology. The advisors often took this to mean information and communication (ICT) technology as well as production technology.

A technology counsellor believed firms could improve their technological competence by listening to their skilled craft workers. However, a technology advisor had mixed feelings about new technology. The firm required appropriate technology because new computer-controlled machines are unlikely to be fixed on-site. Another technology counsellor talked about the importance of the flow of materials rather than the introduction of new technology. This technology counsellor argued that materials handling and shop floor layout should ease the material flow through the workplace with minimal work-in-progress. He described SME owners as '*regular little hamsters*'. After such organisation existed would the counsellor consider new technology because buying in machines can create as many problems as it solves.

Technology was treated in the perhaps peculiarly British way, to keep up just enough to maintain competitiveness, not to forge ahead. This may reveal the UK's low levels of investable funds. Computer technology was making strong in-roads into SMEs by the time these interviews were conducted.

4.5vii marketing

The literature on marketing is extensive and this area was covered next. Storey (1994) reports the benefits to owner/managers of a prior background in marketing. We might expect therefore that the participants stress this aspect.

However, although bank managers asked their business clients about their market and where they wanted to position their product or service, they did not expect a formal plan or strategy. Advisors mentioned the owner's prior knowledge of, and contacts in, the market. A PBA manager with an accounting background had learned the folly of marketing cuts in a recession. Now he stressed keeping products at the forefront. In all facets of running a company, he believed in balance, in making small incremental decisions keeping a balance. *'It's dangerous if you start turning things on and off completely'*, he said.

A technology counsellor struck a sceptical cord:

Evaluating of a marketing strategy to those actually in business is a bit hypothetical. And um SMEs are there, they're more intent to survive and earn a living then they are to consider theoretical and hypothetical marketing strategies. But that's not to say that marketing strategies don't have a place in industry. I'm sure they do but there's a place and a place and I don't think SMEs are it, unfortunately. (Technology Counsellor)

A PBA described a company where the sales director had not visited any major customer in the last two years - shooting themselves in the foot, in his opinion. In his view they knew too little about their competition.

4.5viii sector

There was some disagreement regarding the importance of sectors. In response to the prompt is the sector very important? A PBA replied typically: *'Not really no'*.

An accountant, who dealt mainly with micro-businesses, suggested that small businesses depend on their reputation in local markets. Most hairdressers in his locality competed on price, yet the two most successful had a good reputation

and charged higher prices. Micro-business success awaited those businesses with little local competition, but if local business dried up, bankruptcy loomed.

Marketing appears to be one of the more difficult areas for the small business owner and indeed advisor too. It would appear more important for those concerned with growth businesses than for those involved in lifestyle or 'Mom and Pop' businesses. It is sector specific, of course, and the ability to advise does depend on knowledge of the sector. Generalists are poorly placed to advise businesses on this area - crucial for growing businesses. This may indeed be a serious criticism of the Business Link set-up.

4.5ix culture

In the first interview the interviewee discussed the subject of company culture. I persevered with this prompt, despite the difficulty in defining the term. I compared the Marks and Spencer's and British Home Stores 'way of doing things' thus 'way of doing things' embodied the firm's culture.

A TEC advisor declared that Investors in People programme resulted in a cultural change within the firm toward a more open, democratic culture. And a technology counsellor believed a 'blame-free culture' was a great deal of what they did. Another technology counsellor said: *'a company with a culture, a mindset for change, in place will be more approachable to new ideas'*

A PBA advisor sounded a note of scepticism: *'You're in a different world from an SME...Well how many different types of culture do you think you might have in a firm?'*

Others were more engaged with the concept. Many advisors commented on the relation between the owner and the business. An accountant suggested that a strong personality with drive and ambition would carry his or her business along.

Culture produced different responses. Culture came to be seen from these responses as analogous to the personality of the manager. The TEC advisor

argued that changes at the top would require a new liP. Thus the culture of the organisation, insofar as you can identify such a thing, reflects the individual SME manager. For some advisors the concept appeared esoteric.

4.5x organisation

This is another matter to do with the way in which the company operates. Small companies generally are said to operate with flatter structures. Although some advisors want the layer below the managing director to impress them with their competence, small businesses do not possess bureaucratic structures. One advisor bemoaned the stripping out of middle management because there is no works controller for the operations specialist to deal with on an appropriate basis. Another technology counsellor argued that the production process distinguished a product-oriented old manufacturing techniques firm and a process-oriented new manufacturing technique company.

4.5xi strengths and weaknesses

KM So what about, um, do you think most companies need to know their strengths and weaknesses?

I think they do need to know them and quite often they do know them. It's just a question of they don't very often quite easily address them very quickly. I don't think. If you ask a small businessman what his strengths were he'll tell you straightaway. If you ask him what his weaknesses were he would probably know them but as to actually doing anything about them. (Bank Manager)

Strengths and weaknesses then were self-evident to business people surviving in businesses. In a sense the advisors job is to see these, though many believe the owners know them already. However, doing something about them was

considered more difficult. The PBA advisors had to tread carefully and the idea was to create quick hits or something that would engender trust.

4.5xii fast growth

Given that the Business Links were intended to foster fast growth and thus advice is supposed to increase performance I asked about advice for a fast growing firm.

KM And what is it you see makes for a fast growing firm? If you had a, if you like, a magic wand and you can say well do this, this, this, this and this.

The University Services Marketing Manager suggested: (1) start in a field where he had some expertise, (2) have the right people and contacts, and (3) seek all possible help. He added that if he had all the answers he would be in business now. A start-up counsellor believed: *Most essential is to be properly financed*'.

The bank managers suggested that fast growth ate cash, and they were concerned about overtrading. Rapid increases in turnover and supplier's credit and an insatiable appetite for bank borrowing signified overtrading. To satisfy their appetite for rapid growth they shave margins, the profits are not generated and their ability to service their debt and the cash to service their supply side creditors can come under pressure. Then a supplier might stop further credit and precipitate a cash flow crisis. A bank manager conceded that no business ever became successful without a significant increase in turnover but that business planning must mediate the stresses and strains. Good managers anticipate and react to the external impact of environmental change, he added. And the key to small business success was good management, which was *forward-thinking, innovative, creative, could take tough decisions*'. A TEC advisor believed fast growth firms should plan and evaluate themselves. Whereas a technology counsellor opined that organisation capacity must advance the firm:

Because there is no point in producing excellent quality goods, if you can't produce enough of them. There is no point in producing enough of them, if you haven't got an outlet for them...and possibly marketing is an essential ingredient in that formula.

A PBA summarised fast growth firms thus:

It's got to have a product which is needed. There's got to be a marketplace for the product or service. You need an MD, or the head man in the business needs to have some vision to drive it forward. You need a good management team. It's basically most of the things we've been talking about. There's got to be concentration on profitability. (PBA)

A relatively new PBA manager reported what came through his reports. He felt that fast growth firms set themselves unachievable targets and therefore achieved more than they would otherwise

A PBA approached this within the constraints theory about small business management, after Penrose (1959). The key to growth was to identify the limiting factors: factory space, market space, money, or people management. And, similar to Penrose (1959) he suggested that:

And the one they fall down on most isn't the money. It isn't the men. It isn't the market. It's the management that they fall down on so frequently. Because what they believe they can do. And what they can actually do are usually a long way apart. (PBA)

A technology counsellor wished for a lean, adaptable company that continually developed new products. A PBA cautioned that advisors never approach the problem in a manner designed to encourage fast growth from every company.

A PBA manager answered the question from a policy point of view. He reported finance as the most requested area of advice for SMEs. A national funding regime may help provide cheaper finance for smaller businesses. The second problem he saw was the ability of firms to hire educated, trained labour even in areas with high unemployment. Finally, the urban area lacked space for growing companies.

Finance came top when advisors were asked to consider fast growth. Fast growing firms require cash. This requirement put many advisors into a cautious standpoint. Here some advisors stressed control in the face of a fast rate of growth. Advisors suggested having the right production facilities, markets, championing of the product, competitiveness and flexibility.

4.5xiii leadership versus strategy

KM Right. So, there's um there seems to be sometimes in the literature a bit of a debate between do you need leadership and the capability of the individual, or getting people in; or can you just switch strategies and then immediately. I mean I'm not so sure these are mutually exclusive. Have you a view on that? Some people can say well look if you've got somebody that understands what they are doing, and they've got, if you like a vision. Then they're going to be flyers and they'll self-select and leave them alone but they might come to you but they know what they're doing in effect. That group will and the rest if you like won't. And then other people will say 'well look, you know, these strategies are associated with success, whether you export, if you can get new markets. If we can get everybody to do this then everybody can take-off um. I wonder whether there's a tension between, if you like, born and made companies?

A bank manager suggested that most business omitted a strategy that reached beyond twelve months. When the manager talked to the lending team they probed what the manager wanted to achieve. A PBA spoke of only two small businesses with realistic long-term strategies - both succeeded well.

Another believed retailers needed people more than strategy but manufacturers needed strategies more than people. Many thought the answer to the question was both. A bank manager replied: *I think good management will have a strategy and I think good strategy requires good management to achieve it*'.

A PBA manager mentioned the relation between strategy and company size. He argued that entrepreneurial strategies succeed for a short period but cannot consolidate. After a number of years businesses must consolidate, he said..

4.5xiv categories

Turning from the advice to fast growing firms to whether categories of firms like Storey's flyers or gazelles, trundlers etc. are used by practitioners. Do you categorise firms when you go and see them? This often provoked rather embarrassed responses.

The University Services Marketing Manager categorised firms by SIC number and by how welcome the company would be to an approach from the University. Companies were warm or cold. They still approached cold companies but spent little effort there and focussed on the warmer companies. They could move a firm from a cold to a warm firm.

A Banker categorised in terms of risk. A technology advisor considered how far the company exhibited best practice. And a member of the PBA group propounded that the type of employees gave a clue. Many young people and much IT denoted a growing company as did management's relaxed and controlled attitude.

According to the PBA group all companies differed. The PBA earned respect from the way they responded to comments; respect earned the PBA the business development review. It is non-prescriptive.

A technology counsellor attempted to focus on customers but found that many were unaware of their needs. This interviewee categorised informally into 'movers and shakers', 'fire fighters' and those in the middle.

Formally then many advisors do not categorise firms into flyers and the like. Informally they may do. But there are difficult issues surrounding categories. Often the advisor categories are based upon their interest: financial, technological, and approachable categories were all mentioned.

4.5xv take-off

I then turned to the idea of surprise changes in companies. Is growth a steady upward curve or do some firms leap off into growth for nefarious haphazard reasons?

KM Have you come across um, I was at a meeting one time and somebody was there and they were from a company in an industrial estate, it was actually in Stafford, and they said 'well we've done so-and-so and so-and-so and then two years ago we started exporting and now we're growing really quickly. Have you; is that usual? Do you quite often, often find companies that, sort of, seem to almost go, progress very slowly and then suddenly something happens and they take-off?

Advisors suggested that take-off happened for a myriad of reasons: a new member of staff brings new ideas, or the firm learns of an opportunity. Some healthy well-managed companies begin with one idea and end up with quite another. A bank manager suggested that it had to be to do with trade. Another bank manager suggested 12 out of 1400 client businesses took-off, less than one per cent, but the number of times that take-off happens is the subject of some disagreement. A technology counsellor suggested that it was relatively common but that take-off fails to follow through because firms lack the management structure, people and technology to sustain it.

4.5xvi tidiness

The next area I asked about was tidiness and again probing the idea of looking around a factory, due to my experience on the shop floor.

Actually the only other thing I've got on my list is. I used to work on a fork-lift tuck and people used to walk round the factory, and they always used to say 'Quick tidy up'. Do you think that makes any difference, I mean do you look for things like how tidy the place is?

Tidiness was associated with organisation, often called 'good housekeeping'. 'Good housekeeping' enables workers to perform their tasks easily and many advisors associate it with a caring attitude toward the workforce. A bank manager commented: *'I could take you to two dairies, and you could see which was the most successful. The one that is neat and tidy and re-invests.'* A PBA opined: *'a messy factory is a badly organised factory'*. A technology counsellor examined a number of factors when he visited a manufacturing premises: *'work-in-progress, bottlenecks, people, activities, how many people are actually doing something that's value-adding to those that aren't.'*

Tidiness, a factor that I have yet to see in a research project about SME performance, came across strongly as a predictor of good housekeeping and hence good management. Tidiness equals organisation, which equals a management in control of the business. Another factor mentioned was staff attitudes as you looked around a firm.

4.6 Data that does not fit into question categories

I asked participants for areas where they wanted to raise but had had no chance to do so.

A bank manager talked about the relationship between banks and SMEs. He argued that many businesses needed not just capital, equity but additional expertise because people meet their personal barriers.

A bank manager talked about the issue of control within the business, which I have quoted in full.

How much you draw down is important. If you are making £40 000 but only draw down (that is SME owners' personal spending) £10 000 then you are okay but if you draw down £42 000 you are in trouble. He told a story about a plumber for British Gas. He made money from shares in British Gas. He then went self-employed as a plumber and made money for a few years. He then 'hit the ceiling' - the account showed him losing money. Andy went to see him and his businesses were out of control. He received twelve messages while the manager sat there talking to him - and remembered three of them. Andy recommended he get in an accountant and Business Link advisors and it turned out two businesses were subsidising two others. Now he has charts on the wall and four people who keep control of the business. Control is a big issue. (Bank Manager)

The growth presumption. The PBA group took me to task regarding my presumption of growth. They said: *'You're working from a presumption of companies wanting to grow and develop. In that isn't necessarily the case is it?'*

'The key question is what does the company want to do?'

Because otherwise we go in proscribing where they do and what they do. We have to go in with a blank sheet of paper and listen to what they want. You know, and it can be anything from I want to retire to i want to be a multi-million pound rocket scientist. And anything in between.

The group argued that the starting point was the manager's wants. They enter the relationship with a blank sheet of paper. Academic research fails to engage with the PBA group. Although the psychology of the owner manager interested them the experience of the real world is what counts. The process of advising constantly re-created rapport. Constant note-taking and questioning dug out the answers to the issues within the SME. Models did not help.

4.7 Analysis of the data

The data was analysed using a content analysis. The results of which are presented in table 24. The categories of data the factors considered by the advisors. Fell into three categories; the table thus lists the categories under these themes.

Table 24 Categories mentioned by the first fourteen advisors, grouped into themes.

The manager	Strategy	Control
Vision	Developing new markets	Plan
Marketing skills	Flexibility to innovate	Conservative financial policy
Forward-looking	Niche marketing	Properly financed
Culture: attitude and vision	Adaptability	Sensible objectives
Determination and commitment	Market research	Keep control
Honesty	Knowing competitors	Trend analyse financial information
Flexibility	Room in the market	Quality of management data
Prior experience and background	Good service	Factory organisation
Why started business	Strengths and weaknesses	Monitoring and business planning
Drawings	Market growth	
Credibility	Barriers to entry	
Management succession (forward thinking)	Keeping pace with technology	
Reliability	Strategy looks further than twelve months	
Listens to advice		
Each firm an individual		
Knowing where they are and where they are going		
Owner being the key to it		
Qualifications		
Contacts- prior in trade		
Team approach		
Got a feel for the business		
Ambition		
Confidence		
Capabilities of the management team		
Can they manage through recessions?		
Leadership skills		
Knows what she or he wants		
Relationship between employees and MD		
Successful business format?		
Thinking creative innovative management that can take tough decisions		
Personality affecting the whole culture		
IIP culture to get the best from staff		
Flexible and forward-looking		
Openness -clarity of MD		
Know's what he's looking for		
Communication - the basis of it all		
Objectives of the owner/manager		
Skills and background		
Management style		
Fast growth needs a driver to stretch themselves		
Is the management team capable of getting the best from the company?		

Now the categorisation under the different themes might be considered controversial. The major question concerns whether there are three categories: manager, strategy and control; or four including culture.

Advisors assess the management's capability. One advisor said:

I can see from those management accounts over time the quality of the data that's produced, how quickly it's produced. What the people are about really. I mean you can have two identical companies with different management on day one. The one will go upwards and achieve its goals with good management. With poor management it will struggle, or can struggle often, often, they can have a product that sells itself. You can't really define anything specific its got to be each case on its merits but what I would say is that over time as a lending manager you get to know who the good managers are, not just by the paper they produce but by the organisation in the factory when you go there.

His point was re-iterated by another *'if you go and look at the good, successful small and medium sized enterprises, and analysed all the really, the different aspects, I think you would probably have to pin point to the fact that the thing in common was good management.'*

Good management depends on, and is demonstrated by, many factors. One interviewee mentioned the SME manager's vision, marketing skills, his or her awareness of culture and being forward-looking, and adaptable, pursuing conservative financial policies and planning. In the strategy cluster, he stressed developing new markets, having the flexibility to innovate, and the ability to exploit niche markets. A second interviewee thought the (start-up) businessperson needed to be honest, determined and committed, with proper finance and control. Involved in advising start-ups, he remarked *'...a new business; the first year is survival, being realistic about what you can achieve. We always go*

on the survival budget. If you can survive on your first year, if you can do better than that. Fine.' Along with its direct benefits, market research indicated commitment and determination. *'I guess out of the fourteen we have at the moment, five or six will start a business. You can tell if they're interested in the workbook, their research..'* He believed service was important than price. Many small business people appear to believe price competition is more important than their advisors. As one counselled *'...and don't do it cheap just go on providing a good service..'* The importance of prior experience, particularly in the industry, was borne out: *'We look at the background we look at where they've been where they are now where they're going, in terms of non-financials what they're doing in the marketplace...And one area that we're particularly interested in to get at is why they want to start the business.'* Others mentioned motivation: *'a lot of it actually comes back to where the company actually wants to go.'* Many interviewees referred to a metaphor of the car driver: *'So you need someone with vision, drive, ambition and you get very much into the sort of psychological aspect. Businesses very rarely progress of their own accord.'* The example of a lack of drive was highlighted by an advisor *'You know and sometimes by asking those questions they realise that they are perhaps drifting. They're not actually doing any planning. Perhaps they ought to have goals that they're aiming for.'* Tidiness too was thought by many of the advisors as an important indicator of organisation and therefore management capability: *'I think it's if you go, particularly these days if you go to a factory, where it is tidy, it's well laid out etc. I think that's indicative of the management. It's indicative that there's maybe an element of pride and I think that will translate into success.'* These were typical quotations. Judgements about the management's capability draw on all these factors, with capable management as a leading indicator of business performance.

Advisors suggest profitability, rather than growth, measures business performance. An advisor noted the aphorism, *'Top line is vanity, bottom line is sanity.'* Warnes' (1984) management formulae: to control cash, a low break-even point, and prices that produce acceptable profit margins, were evident when talking to advisors. An interviewee said *'I'm brought into the business where the cry is 'we want more money and we can't get it'. And you find very quickly that they need*

more debt finance like a hole in the head. The problem of the business is it ain't profitable enough for whatever reason... Yet ultimately they may need more debt finance or whatever. But if you engineer that for them without putting right the basic problems of the business what essentially you would be doing is building them a scaffold and handing them a rope.' The bank managers' risk-reward trade-offs were different from the Business Link advisors. Whilst the latter are charged with finding and encouraging growth companies, the bankers need to be repaid by all their companies due to their risk and return trade-off: *'...obviously if we're lending money we look to security because we're not equity providers in the pure sense of the word. So we expect, we don't charge risk capital rates. We charge a margin over base rate and we expect the proprietors of a business to support a request for funds where appropriate with security.'* Advisors stressed control and profit rather than growth.

Advisors emphasised 'soft' issues like culture, team working and morale. *'But nowadays because of everybody sort of working together much more and the teamwork is extremely important. You've got a lot more. In my view there's a lot more camaraderie. In a good factory there's a good feeling between the management at whatever level and the production people a much better feel. And if you are walking round the factory and the managing director's walking round relaxed with you and he's showing you the machine. And he says to the chap on the machine 'oh Hello, so and so I've come to show this consultant, business advisor whatever you want to call us, this machine, can you demonstrate it milling or something or other. Bill' and the chap says 'Okay Mr sos and so' you know they've got a good , there's a good rapport, you know. The place is tidy. It gives you the, it engenders the right sort of feelings in everybody, the chap operating the machine, the director, the visitor. Um.. I think that's, that is quite, it's not critical but it's quite important. The whole aura of the business. If you've got a good team spirit from top to bottom then you've got an awful lot going for the company, for a variety of reasons, one of the main one is that you get trust.'* A technology advisor believed communication was linked to innovation: *'...if you listen to the skilled tradesperson, they can contribute significantly in some instances to the technological competence of the company generally.'* Advisors generally reported little innovation in the small firm sector. The same advisor felt organisation was important for growth. His advice for fast growth firms was *'I think my first line of*

advice would be to make sure that the organisational structure is capable of advancing the firm and its potential in its market sector.' An advisor linked people, planning and growth: *'But of course there are some companies in that size that haven't even got a business plan to start with. But that's been identified as the single biggest reason that stops companies growing when they get to a certain size and they just stop.'*

A senior advisor mentioned balance:

'I think in all these, in all these different facets of running a company it's a question of striking a balance. It's dangerous if you start turning things on and off completely. It's much better to try and turn the heat up a little and turn it down a little, and balance the weight that you put in each of the separate activities of running the business.'

When it comes to strategy the advisors were often sceptical of the amount of strategic management in small companies. An advisor commented:

'Evaluating of a marketing strategy to those actually in business is a bit hypothetical. And um SMEs are there, they're more intent to survive and earn a living then they are to consider theoretical and hypothetical marketing strategies. But that's not to say that marketing strategies don't have a place in industry. I'm sure they do but there's a place and a place and I don't think SMEs are it, unfortunately.'

Terms like strategy are loaded. The firm takes inputs from the economic system and, using knowledge and production technologies (including services), processes and organisation create marketable products. If the products are not marketable: the firm soon has a strategy, never mind control, problem. Now all this produces sales and the process from inputs to sales is called the strategy of the firm in this model. Scholars debate whether strategy is derived from

objectives or emerges from the firm's activities. Of course, advisors might adopt the top-down model simply because that is the model they have come to know from their management training. The model can apply just as well if strategy is the starting point. Strategy might emerge and then realistic managers with good control match their objectives to it.

All the elements of strategy, control and capabilities attempt to answer the question are the management capable? Is the firm well managed? Strategy, control and objectives are management concerns, combined in a conceptual model of small business management. Culture is included in the SME manager cluster. In a small business, the manager establishes the culture. In response to the question on the personality of the owner, an interviewee said:

'Yes, because it affects the whole culture really. That's why, just for example, if an organisation has got Investor in People and has recently been recognised as an Investor in People if there's a huge structural change at the top, or the chief executive goes; it may be that the assessor who got their recognition wants to go in again, just to check that it's not changed. Because they have a huge influence really on the way things work.'

A recurring theme of business advisors was control. Advisors were concerned for example if basic financial information was not available or adequately understood by the owner-manager. Control involved knowing the cash position of the firm, whether the firm was profitable enough and understanding if the firm was well organised. Thus control might be seen as a correcting mechanism in the firm ensuring its continued prosperity. This model attempts to fit control into a representation of the concerns of business advisors. The model considers three questions that business advisors might want to understand.

What does the manager want to do with the business?

Are the firm's activities consistent with the objectives?

What systems or information is there to control and measure whether the firm's activities are successful?

SME performance depends on the management's capability to set objectives, implement them (strategy) and keep control. Advisors use a great number of factors to form a judgement of capability, highlighting areas of strengths and weaknesses within firms, which, by their size and variety, may be in very different sectors and locations.

4.8 Error Signals within Research interviews

The heuristics used by business advisors suggested congruent vision, strategy and control within the well-managed business. A second issue concerned how the advisors approached verification of the model. In a sense then this takes a step back. Besides considering the what of heuristics; this considers the how. One PBA suggested that assessments could be made using a mixed metaphor of traffic lights and baseball - three red lights and you are out, two greens and an amber and you are safely at first base. Another approach, based on an engineering metaphor, is to use error signals.

The data was revisited in order to investigate whether the use of error signals fit. Error signals might be either positive or negative. Thus a signal might indicate congruence was present or was not present. Congruence can be noted between vision and strategy and between strategy and control. Thus interview transcriptions were re-read and coded under the four themes. Indicating positive and negative signals and the two areas of congruence, see table 25.

Table 25 Error Signals

	Positive Signal	Negative Signal
Vision and Strategy	a	b
Strategy and Control	c	d

I decided to re-code the PBA transcriptions because, in a manner it was these interviews that were most important.

Table 26 Re-coding for Error Signals

	Vision and Strategy		Strategy and Control	
Interview No.	Positive - a	Negative - b	Positive - c	Negative - d
9	Ability to make decisions		Striking balance a	Debtor days in line with sector
	Leadership		Business strategy	Many operatives only one foreman
	Product knowledge		Tidy place	
	Vision - idea of where you want to go		industry average ratios and benchmarks	
	Aware of market developments			
	good relationship with factory floor workers - team spirit			
11	Personal appearance and attitude of MD		tidy, well-laid out	cross-transfer of materials across the shopfloor

	A structured, logical and cohesive approach		stock commensurate with level of work	levels of stocks
	Listening to skilled tradesperson		good despatch relatively clean	
			often undertake deliveries	
			invoicing promptly	
12	Vision, drive ambition	Too busy running day-to-day operations	Forum where management can communicate	Mess everywhere = no hoper
	A motivator	Attitude of the receptionist	Business Plan -	
	Number of customers - well spread customer base		management information	
	Bringing in help		profitability	
	Balance in management team			
13	Management's objectives and business plan	They have got the plans but they're not formalised		lack of a basic reporting system
	whether he's got the vision	whether he hasn't got the vision,		doesn't know cost to make product
14	team working approach communication process	little communication between the MD and sales director.	a business planning process	it's efficient or not by the general tidiness
	entrepreneur, concentrates on the strategy.	little communication between the people at the		

		top and the workforce		
	know what the market is for your product and service	upsetting the staff and key staff leaving		
		what's holding this company back		
15	no products have you brought to market in the last year or five years?	a failure to have much idea at all about marketing	understanding of financial management, order, records	a failure to have a proper handle on the finances
	customer base	ignorance of market share	The understanding of break-even, and gross margin	fail to understand the need for working capital
	the attitude of the key people		the general appearance - a thermometer	Lack of business plan and cash flow forecast - lack of control, lack of planning.
	Their dreams and aspirations a business plan?		business planning	
19	smiling faces	don't assess ourselves against business plan	good housekeeping	'Buying' in business
	team atmosphere - lack of firefighting	autocratic owner		
		not understanding their competition.		

The results from table 26 seem to indicate that it is indeed possible to consider the interview transcripts in terms of error signals and congruence between vision and strategy and strategy and control. The positive signals between vision and strategy included such terms as leadership and vision, particularly the idea that the owner-manager knew where he or she wanted to go. Others mentioned the products and innovation the customer base and that the entrepreneur concentrates on strategy. Negative signals from the congruence between vision and strategy included the tendency for some entrepreneurs to fire fight, the attitude of the receptionist, lack of communication and planning and marketing ignorance. The positive signals between strategy and control involved business planning processes, market knowledge, understanding financial management and good housekeeping. The lack of financial management and efficiency constituted negative error signals.

The table is exploratory, not conclusive, however. It attempts to show that an error signal approach to the issues of assessing business management is possible. Some questions within the questionnaire sent to PBAs included the question of congruence between the various internal management, although the error signal approach itself was not tested.

4.9 Questionnaire

To test the model of advisors heuristics a questionnaire was designed. The questionnaire's rationale was to validate, or not, and generalise, or not, the interview findings. The questionnaire was sent to every English Business Link. The PBA managers were asked to pass on this self-administered questionnaire to all their advisors. 712 questionnaires were mailed and 175 complete questionnaires returned, a response rate of 24.57%. Most Business Link's agreed to help though Business Link Macclesfield (6) Business Link London Central (19) Dorset (6) St. Helens (4) and London City (30) declined to take part. Subtracting these leaves 647 potential respondents and an adjusted response rate of 27%. Approximately 1 in 4 of the PBAs in England took part in the survey.

The questionnaire was eleven pages long but took just over 15 minutes to self-administer. It divided into sections about the respondent, the organisation, the task in hand, the views about small business, causes of business failure, factors for business growth, and views about management functions. This section will now go through these sections and consider the answers to all of the questions contained within the questionnaire.

4.10 Results from Questionnaire

4.10i about you

The first section asked respondents about themselves. The first question asked about the current job title. Most respondents were PBAs although there were several (technology) counsellors. The length of service was of interest. A hypothesis was that those with longer experience were more likely to use heuristic methods as opposed to those with less experience. Rather like the bank managers, the relative newcomers may be more likely to rely on mnemonics or models as opposed to intuitive experience. Thus the questionnaire asked for lengths of service. All told the respondents had over 1000 years of experience between them and averaged 6.2 years, with variations from 1 year or part of up to 33 years experience. The questionnaire asked about whether the advisors had working experience in the small firms sector, the expectation is that most have but eleven out of the 175 lacked small business experience, representing just 6.3%. The overwhelming majority of advisors worked in small business before their present employment. The next question asked them to say in what capacity and the options ranged from managing director. Respondents were asked to tick all that apply so the results add up to more than 175.

Table 27 PBAs' Prior Experience in Small Firms

Capacity	Number
Managing Director	88
Finance Director	26
Sales/Marketing Director	50
Other Director	42
Business Planning	67
Manager	89
Supervisor	24
None of the above	11

Most PBAs experience was as a manager or managing director with business planning and sales and marketing directors next in line. Comparatively few of the advisors had held the position of finance director. Interesting to cross tabulate the other directors with those having engineering experience to suggest that many were production directors and perhaps a weakness of the questionnaire was that it did not include this area. Prior experience in small firms was at senior levels according to table 27.

Prior academic experience was another area of interest. The argument may be put that extensive academic experience is less of a help for advisors that hands-on practical experience. Table 28 shows the highest qualifications earned by the advisors. In addition, respondents were asked whether they held a professional qualification.

Table 28 PBAs' Prior Academic Qualifications

Qualification	Number
Masters degree or above	48
Degree	60
A levels	35
O levels	25
none of these	7
Professional qualification	123

Those that have graduate qualifications are in the majority with 108 PBAs having prior higher education while 67 PBAs have not. This divides into those that maybe called more practical and those with a more academic background. This divides quite nicely for an analysis to split the PBAs into distinctive groups and see whether this is reflected in the attitudes to certain types of questions or to the nature of the job and, for example biases about firm failures. Another way to divide the PBAs is along the lines of those with professional qualifications. Certainly evidence on fast growing businesses have used professional qualifications as a proxy for education- the type of qualification though might be important. In particular, accountants and production experts might hold distinct views. The next question asked the 123 who declared their professional qualification whether it fit into the following types.

Table 29 Types of Professional Qualifications

Qualification	Number
ACCA/FCA	12
Other accounting such as CIMA	14
Institute of Bankers	7
Chartered Engineer	20
Institute of Marketing	22
None of the above	50
Total	125*

*Two respondents held qualifications from two bodies mentioned, from other accounting and Institutes of Marketing and Banking respectively.

The table shows a fairly even split then between accountants and financial professionals, engineers and marketeers. A fault in the questionnaire was the none of the above. If these were sent out again there should be a space for respondents to write in other, this might have missed personnel qualifications or other production orientated qualifications, which is a shame.

Tables 28 and 29 give us a number of groups whose responses can be compared to test the homogeneity of views in the PBAs ranks, and will also

give an indication of the importance of the prior background to the attitudes of PBAs.

The next question asked for details of the PBAs experience in the small firms sector. This was a check on the previous table 27.

4.10ii your organisation

Following from the section about the respondent this next section asked about the organisation. There has been much discussion about the way different business links have gone about their tasks. Business Links are local organisations that are accountable to local boards. A difficulty with this approach, a difficulty shared with local government, is that this inevitably leads to many Business Links having to learn the same things in parallel. Many people refer to these phenomena as ‘re-inventing the wheel’. However, it does mean that organisations can do things differently and thus provide some outlets for experimentation. Consequently, the questionnaire asked how far the organisation prescribed the way clients were interviewed from not at all to very much.

Table 30 How far does your Organisation Prescribe?

Prescribe	Number
Not at all (1)	42
(2)	74
(3)	37
(4)	18
Very much (5)	0
Declined to answer	1

We can see therefore, that PBAs are largely left to their own methods to interview clients, although that does not necessarily mean that the way in which they report is not standardised. The research interviews with PBAs and their managers found a difference in view between the various links, with one

stressing an approach whereby the analysis is standardised whereas another argued that they wanted their PBAs to exercise their experience and judgement. To pursue this judgement approach training might be necessary and thus the questionnaire asked about training, and its effectiveness.

The question about training was turned into a scale from 0-2 with a DUBS or equivalent course as 1. There might be some correlation between the amount of training and the perceived effectiveness of the training. Therefore a scale from one, not at all effective, to five, very effective was used to elicit the PBAs perception of their training on becoming a business advisor.

Table 31 How Effective was Your Training?

Training Effectiveness	Number
Not at all effective(1)	3
(2)	23
(3)	43
(4)	81
Very effective (5)	21

Generally, then advisors felt that their training was effective, although for some the training did disappoint. One would be hard put to make a case for widespread training ineffectiveness.

Table 32 Your Training

Training Reported	Number
Less than Dubs	75
Dubs	67
More than Dubs	28
Total	170

Cross tabulating these two sets of data (in table 33) shows that there does seem to be a link between more training and the effectiveness of the training, though why this should be is not entirely clear. Why should effective training lead to more training for example?

Table 33 Training and Effectiveness

Training	Effectiveness					Total
	1	2	3	4	5	
0	3	13	21	34	4	75
1	0	8	19	32	8	67
2	0	2	2	15	9	28
Total	3	23	42	81	21	170

The crosstabs yields a chi-squared of 21.927 although 5 cells have a count under 5 and the training is rather arbitrary thus the weight of evidence this produces is rather shaky. Indeed, there is a case to suggest that the data produced in table 33 is nominal rather than ordinal. Though the responses to how effective was the training that you received would, I suggest come under the heading of ordinal data, 5 is greater than 4. The amount of training was set at the residential five-day DUBS course being equal to one with 2 higher and 0 less. This evidence, I suggest is exploratory.

Having asked about training they respondents were asked about their jobs

4.10iii your job

Given the use of heuristics will be related to the nature of the task at hand, the questionnaire asked advisors about their jobs. Using a grid the respondents were asked to indicate where they thought their job lied on the scale. Table 34 shows the responses.

Table 34 When advising small firms do you find the process...Please tick one response.

	very	somewhat	neither	somewhat	very	
simple	3	28	72	62	7	complex
intuitive	5	61	40	61	7	methodical
subjective	2	26	42	78	24	objective
sector specific	6	23	43	56	44	sector not important
uses academic knowledge	4	13	39	71	42	uses experience
can be scored	1	42	52	49	21	cannot be scored
has a standard method	4	56	35	59	19	has no standard method
informal	12	76	60	24	2	formal
routine	0	6	22	86	59	everyone different
needs face-to-face contact	145	13	2	3	12	needs no face-to-face contact

Some respondents did suggest that the neither should be both, so that some crossed out neither and put both, though it can be argued that for example something cannot be neither simple nor complex either it is one of the other. Thus if the questionnaire was represented this would be changed to neither/both. The simplest type of analysis is merely to use the mode values as an indication of where respondents collectively saw the job as in table 35.

Table 35 The Process of Advising Small Firms

	very	somewhat	neither	somewhat	very	
simple			X			complex
intuitive		X		X		methodical
subjective				X		objective
sector specific				X		sector not important
uses academic knowledge				X		uses experience
can be scored			X			cannot be scored
has a standard method				X		has no standard method
informal		X				formal
routine				X		everyone different
needs face-to-face contact	X					needs no face-to-face contact

Indications are then that the PBAs see their job as both intuitive, and methodical, simple and complex, objective, not sector specific, using experience, with no standard method, in an informal setting, albeit everyone is different and it most definitely requires face-to-face contact.. No computer models then.

4.10iv your views about small business

We are interested in your views about, and experience of, small business success and failure. Please tick the response that is nearest to your views for the following questions. You should aim to answer the questions quickly and without too much reflection.

Table 36 Views about Small Business

10. Good businesses have formal business plans.

Strongly agree	41	63	47	22	2	Strongly disagree
----------------	----	----	----	----	---	-------------------

11. Successful small business managers know the strengths and weaknesses of their competitors.

Strongly agree	62	74	19	17	3	Strongly disagree
----------------	----	----	----	----	---	-------------------

12. Even poorly organised firms often prosper.

Strongly agree	13	69	40	41	12	Strongly disagree
----------------	----	----	----	----	----	-------------------

13. It is unnecessary to innovate to be successful as a small firm.

Strongly agree	8	35	33	61	38	Strongly disagree
----------------	---	----	----	----	----	-------------------

15. A significant number of small businesses fail because management lack financial competence.

Strongly agree	85	71	6	9	4	Strongly disagree
----------------	----	----	---	---	---	-------------------

16.Success in small business is largely a case of being in the right place at the right time.

Strongly agree	2	38	61	53	21	Strongly disagree
----------------	---	----	----	----	----	-------------------

17. Businesses with clear financial control systems are more likely to survive.

Strongly agree	85	68	16	6	0	Strongly disagree
----------------	----	----	----	---	---	-------------------

18. Good management is good management; no matter what sector the company is in.

Strongly agree	124	49	2	0	0	Strongly disagree
----------------	-----	----	---	---	---	-------------------

19. Setting goals, planning and evaluating progress is the hallmark of a well-managed firm.

Strongly agree	100	66	7	2	0	Strongly disagree
----------------	-----	----	---	---	---	-------------------

20. Agreement between the firms' objectives and its operations indicate good management.

Strongly agree	70	84	20	1	0	Strongly disagree
----------------	----	----	----	---	---	-------------------

21. Businesses control managers; managers do not control businesses.

Strongly agree	0	16	26	56	75	Strongly disagree
----------------	---	----	----	----	----	-------------------

22. Success depends more upon the sector that the firm is in; rather than the quality of the management.

Strongly agree	0	7	22	84	61	Strongly disagree
----------------	---	---	----	----	----	-------------------

23. Finance is more readily available for well-managed firms.

Strongly agree	72	68	15	16	4	Strongly disagree
----------------	----	----	----	----	---	-------------------

24. It is unnecessary to innovate to be successful as a small firm unless the firm is in a high tech sector.

Strongly agree	2	32	27	57	57	Strongly disagree
----------------	---	----	----	----	----	-------------------

25. Successful companies appear well organised and tidy.

Strongly agree	17	95	43	17	3	Strongly disagree
----------------	----	----	----	----	---	-------------------

26. You can tell a lot about a firm by just walking round.

Strongly agree	74	87	9	4	1	Strongly disagree
----------------	----	----	---	---	---	-------------------

27. Its all down to luck.

Strongly agree	0	3	21	54	96	Strongly disagree
----------------	---	---	----	----	----	-------------------

One method to consider the agreement is to simply take the agrees and disagrees and take the one from the other. Strongly agreeing and disagreeing should be done separately. This nominal data is not conducive to combining those strongly agreeing or disagreeing with those just in agreement. The numbers strongly disagreeing are taken from those strongly agreeing and in a similar vein with the simple agreement and disagreement. Thus an index is

constructed by simply adding those remaining strongly and not strongly agreeing.

Table 37 Agreement to Small Business Views

Question	Index of PBA agreement
Good management is good management; no matter what sector the company is in.	173
Setting goals, planning and evaluating progress is the hallmark of a well-managed firm.	164
You can tell a lot about a firm by just walking round.	156
Agreement between the firms' objectives and its operations indicate good management.	153
Businesses with clear financial control systems are more likely to survive	147
A significant number of small businesses fail because management lack financial competence	143
Finance is more readily available for well-managed firms.	120
Successful small business managers know the strengths and weaknesses of their competitors.	116
Successful companies appear well organised and tidy.	92
Good businesses have formal business plans.	80
Even poorly organised firms often prosper.	29
Success in small business is largely a case of being in the right place at the right time.	-34
It is unnecessary to innovate to be successful as a small firm.	-56
It is unnecessary to innovate to be successful as a small firm unless the firm is in a high tech sector.	-80
Businesses control managers; managers do not control businesses	-115
Success depends more upon the sector that the firm is in; rather than the quality of the management.	-138
Its all down to luck.	-147

Table 38 Causes of Business Failure

28. From the list of factors below and your experiences please indicate to what extent they are important causes of business failure.

	Rank	Mean	Standard Deviation
Poor debtor control/bad debts	1	4.3429	.6407
Lack of management capability	2	4.3143	.6330
Over-trading	3	4.2914	.6786
Inadequate working capital	4	4.2743	.6645
Lack of demand	5	4.2457	.8110
Poor cost control	6	4.0571	.5110
Lack of managerial skills	7	4.04	.7456
Lack of clear business objectives	8	3.8286	.8265
Poor management accounting	9	3.7543	.7209
Inadequate market research	10	3.7086	.8309
Supply chain 'squeezes'	11	3.4971	.7822
Lack of innovation	12	3.4743	.7567
Low profit margins	13	3.44	.8134
Unexpected changes in demand	14	3.4343	.8129
Staying too long in mature markets	15	3.32	.8168
Changes in technology	16	3.25	.7883

Table 39 Factors for Business Growth

28. From the list of factors below and your experiences please indicate to what extent they are important causes of business growth.

	Rank	Mean	Standard Deviation
Ability to develop new markets	1	4.5115	.5013
Ability to spot new opportunities	2	4.5	.5765
Increase in customer demand for the product or services	3	4.3103	.5651
Ability to bring new products to market	4	4.2414	.6263
Clear business objectives	5	4.1954	.7267
Ability to anticipate demand changes	6	4.1494	.6973
Long-term business planning	7	4.0632	.6981
Good management skills	8	4.023	.6796
Good market research	9	4.0172	.6032
Ability to improve productivity	10	3.8786	.7171
Adequate working capital	11	3.7110	.6628
Ability to manage the margin	12	3.6207	.7789
Good knowledge of cost structures	13	3.569	.7159
High profit margins	14	3.4483	.8965
Good debtor control	15	3.2069	.7994
Ability to absorb cost increases	16	3.1724	.7858

Your views about management functions. Management tasks tend to be associated with different functions in the management of a business. In small businesses, the same person may undertake these activities. Please map the following activities to the three functions.

Table 40 The Area you think the Following Management Activities Apply.

Activity	Function		
	leadership	strategy	control
managing stock levels	1	7	159
co-ordinating	101	25	39
directing purpose	122	37	1
researching the market	7	159	4
managing cash	2	3	161
raising finance	35	105	21
developing vision	100	62	0
setting clear targets	85	70	1
setting prices	11	114	41
knowledge of competition	14	132	22
changing business direction	74	81	1
chasing debts	1	4	165
motivating staff	163	6	1
producing management accounts	0	4	165

This findings chapter is based around a model developed from the responses of a wide variety of business advisors, that well-managed businesses demonstrate congruent objectives, strategies and control. The discussion of the evidence for and against the model, presented in this chapter is part of the concluding chapter.

In addition the results related to issues surrounding the nature and development of the PBA service. Issues such as recruitment and training of PBAs and their views of business growth and failure, and the way that they perceive the nature of their task, impact upon the way in which PBAs deliver a tailored service to individual businesses within their area. Yet for the purposes of this research the focus remains on the role of factors in assessments of a

well-managed firm and the heuristics that demonstrate those factors, such as tidiness as an indicator of control.

Chapter Five

DISCUSSION

5.1 Introduction

This chapter presents the findings within their context. It discusses previous chapter's findings. Having presented the results; this chapter weighs the evidence to answer the question, what does all this mean? The chapter aims to make sense of what has gone before, and will argue that the results presented provide evidence to support the view, outlined, that business advisors try to find evidence for, and reinforce, good management within their SME clients. The chapter suggests that they do this by applying the heuristic model (developed in the previous chapter). The chapter also discusses the implications for the theories discussed in chapter 2. In essence the chapter discusses the outcomes of the research question and research problem contexts. The next section of the chapter presents the conclusions about the research question.

5.2 Conclusions about research question

The interviews were coded and these codes grouped into themes, presented in section 4.5 of the previous chapter. These themes differ from Storey's (1994) who conceptualised three themes in quantitative research of SMEs: the manager, strategy and location, noted in section 2.2. Our codes contained categories, however, that would not fit these three themes, in particular the important issue of control - where advisors mentioned planning, having a conservative financial policy, the quality of financial data, and the layout of the production process. Although some factors might have fit into the strategy theme, many including debt collection did not fit into strategy. Control became a distinctive theme emphasised by the advisors interviewed for the qualitative part of the study. Moreover, the advisors concerned with survival, bank

managers, often mentioned that concept of control and, probably because of their background, financial control. Advisors from a less risk-averse background, such as a marketing executive at a university link to SMEs tended to emphasise the elements more associated with strategy, like for example new product development, adaptability and keeping pace with technology. Start-up counsellors referred to market research, to identify that there is room in the market, knowing competitors and barriers to entry. Thus these two themes were conceptually different. Strategy looks outward- to new opportunities, technologies, and markets. Control looks inward - collecting debts, ensuring a smooth flow of materials through a factory.

The research suggests two firm level concepts: strategy and control. Strategy involves the search for custom. Its theoretical base is within the domain of marketing, and marketing concepts are the key to understanding this area. For control, the search is for cash and financial stability. Its theoretical parent is finance and the programme most useful would be a crash course on the use of financial information for decision-making, with particular emphasis on break-even points, and their reduction (Warnes, 1984). A second element to control concerns the production process - tidiness, shows control in the physical environment. Strategy and control may be in conflict, and good managers manage this conflict.

The theme of the owner-manager completes the three themes. Advisors often mentioned such terms as vision, honesty, prior experience, marketing skills and determination. In addition, advisors noted that the firm behaved like an individual. A PBA recounted that the introductory course at Durham University focused on the peculiar nature of owner-managers. A technology adviser recounted that *'...there isn't really a stereotypical company'* The owner-manager's role is particularly important in the smallest firms. One issue was to consider whether to separate culture from the theme of the owner-manager. Both culture and the owner-manager conflate because the inter-linkages were particularly strong. Within the small firm the owner-manager sets and maintains

the culture. An IIP assessor from a Training and Enterprise Council commented:

...it affects the whole culture really. That's why, just for example, if an organisation has got Investor in People and has recently been recognised as an Investor in People, if there's a huge structural change at the top, or the chief executive goes; it may be that the assessor who got their recognition want to go in again, just to check that it's not changed, because they have a huge influence really on the way things work.

Thus the model developed contained three elements: owner-manager, strategy and control.

The three elements differ from Storey (1994). One might argue that Storey conceptualised these three elements to organise a chapter on the growth of the firm, rather than posited that they captured the factors required for firm growth, nonetheless our three factors differ. The research corroborates the importance of the owner-manager and the strategy pursued by the owner. Additionally, there is a damping factor in our conception lacking in econometric studies. Obviously the researcher's methods make a difference in the way that researchers imagine small firms. Econometric studies measure observable numeric data. More qualitative methods make it easier to represent the firm as a system.

The systems approach to the firm is advantageous. First, the systems approach models the firm as a single entity. The firm might emphasise different factors depending upon its growth-orientation or its available resources. Thus, the firm that has a cash stockpile might emphasise a strategy to increase its customer base. The systems' approach demonstrates the knock-on effect on other factors. In fact, in the model the chain of causation might have run from the cash stockpile to a more growth-orientation of the owner-manager to the

change in strategy that in turn affects the control. The systems approach demonstrates that all-important balance of the firm referred to by one of the PBA managers.

Secondly, the systems approach explains why a better-managed company has control. Since, management writers from F.W. Taylor onwards have emphasised manager's control it might be thought obvious that a controlled firm is managed better. The systems model demonstrates that the firm becomes self-regulating once the firm incorporates control within its internal management system. A control function incorporates a negative feedback element that damps oscillations. The controlled firm has immunity from the wild swings associated with a firm subject to undamped oscillations. Therefore, the control element functions like a thermostat that regulates the temperature to keep the engine running smoothly. Systems theories, long used in engineering, explain the order within the firm. Moreover, they do so in a dynamic rather than static model.

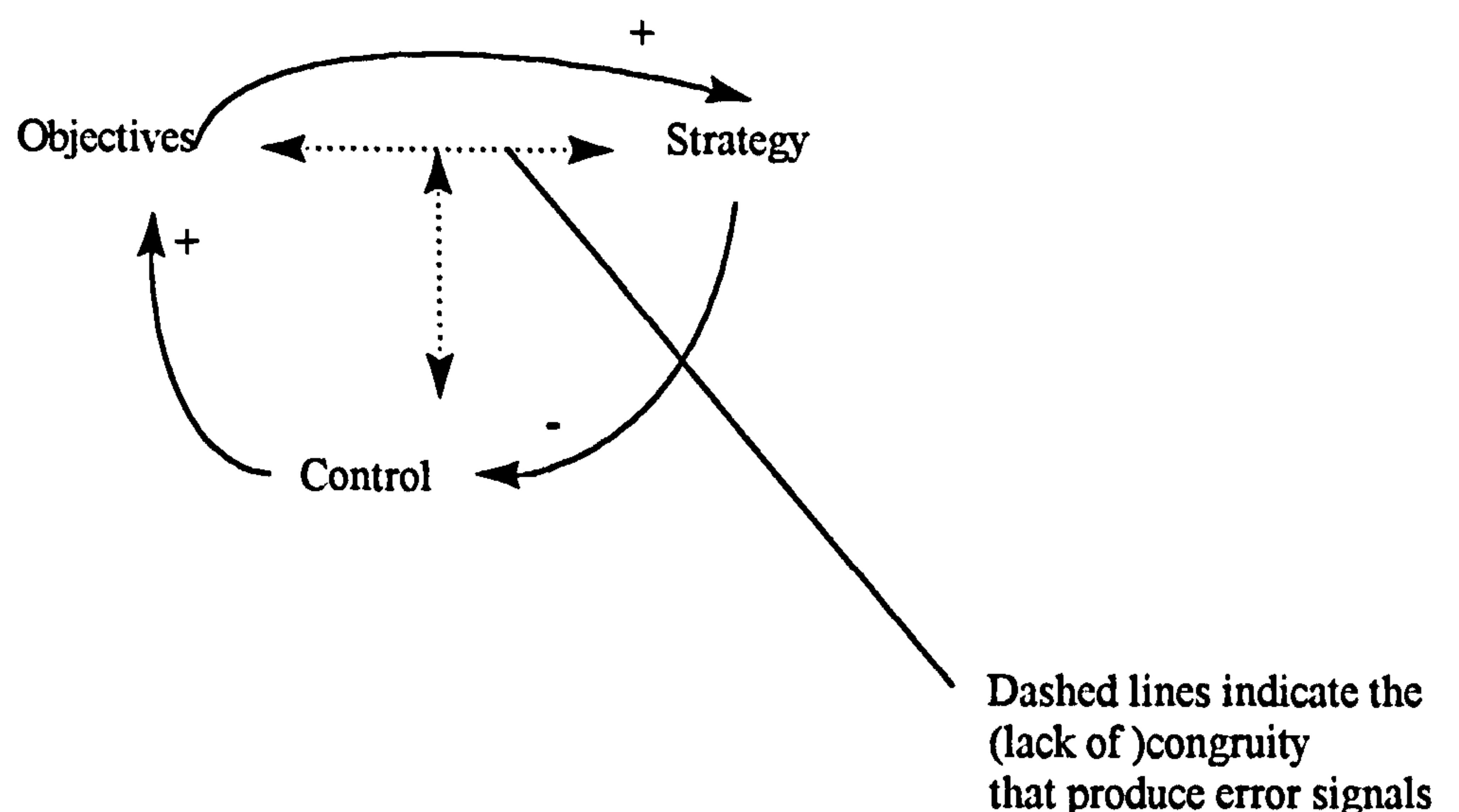
Thus the research replaces Storey's three themes of owner-manager, strategy and location with a dynamic self-regulating system that incorporates the owner-manager, strategy and control.

The model involves potential tension between the strategy and control. The owner-manager has to balance the conflicting demands within the internal management. Likewise, Hughes' (1998) conclusions matched this dual internal control and outward strategy processes in firms that sustained growth. Consistently growing firms developed their internal resources; yet expanded the capabilities of their workforce. Consistently growing firms monitored and managed closely internal operations; yet broadened their product and customer base. Consistently growing firms specified their markets: yet broadened their market opportunities. These two elements must be managed and harnessed toward the firm's objectives, which Hughes (1998) research on growth constraints in sustained and not sustained growth SMEs, and the research

presented here suggests. One can depict the owner-managers as driving a two-horse chariot ensuring the harness keeps the horses working together.

Nonetheless, clearly business advisors believe that the management capability is the key to the development of the firm. Thus, the research here built upon the research interviews to build a model incorporating feedback. The feedback model developed emphasised three key areas of a firm that make for good management: the owner-manager's visions and leadership, the firm's strategy and the degree of control evident in the business. These three elements then were modelled in figure 13, reproduced here.

Figure 14 reproduced figure 13



The questionnaire attempts to confirm or refute the model presented of PBA's heuristics. As a fairly esoteric model one way to approach the problem is to consider the evidence for and against the model contained within the questionnaire. That is there are those questions where responses can falsify the heuristic model, and the evidence supporting the model must be weighed

against contrasting evidence. Given the responses fail to deliver a knock out blow to the heuristic model the evidence to support the model is then marshalled. One can suggest a hierarchy of three levels of the model.

1. That business advisors seek to identify control within a business
2. That business advisors seek managerial control as a feedback loop
3. That business advisors seek congruence between objectives, strategy and control
4. That the way advisors work is to identify error signals

First, then the falsifying evidence.

At the 15th national small firms policy and research conference held in Southampton (Chittenden et al., 1993) Storey (1993) called for a policy to target support on growth businesses. Smallbone et al. (1993) argued that a gap existed for consultancy within small firms. From these discussions one can identify the seeds of the remit of Business Links and the role. Indeed Storey even gave some advice regarding recruitment when he said: *'this expertise will only be available amongst former or current business owners or senior managers with operational experience'* (1993:24). Business Links took this advice. PBAs prior experience is usually as a managing director or manager of a firm, with a number drawn from business planning. The PBAs certainly did have a wealth of experience; many had academic qualifications too. Out of the 175 PBAs responding 108 had degrees of one sort or another. 123 had professional qualifications. Among those with professional qualifications the 33 had financial qualifications such as the Institute of Bankers, or chartered accountants; 22 had institute of marketing qualifications and there were 20 chartered engineers. This seems to fit quite well with the demand for Business Link services.

Generally PBAs felt that their training was effective. There has been some discussion about the effectiveness of training for owner-managers with many

commentators and academics, including David Storey, being fairly sceptical about its usefulness. The chi-squared crosstabs test did suggest that the more training a PBAs received the more effective they felt the training to be. This does not suggest causality. The questionnaire covered the training issue superficially. PBAs were assigned to different groups by judgement. The standard of a DUBS course was set at one. There is, however, an interesting issue here about the relationship between the amount of training and its effectiveness. Is training for PBAs cumulative? Agar and Moran (1995) believed that training was enhanced by professional development over an extended period in peer groups.

Training's power to develop management within small business is hotly debated. Many assert the ability of training to develop managers (for example CBI, 1993); whereas others fail to distinguish the link between training and small business management. More innovative methods to deliver training have been pioneered such as the Norfolk Small Business initiative supported by banks with some success in terms of response (Cushion, 1997). Perhaps researchers ought to distinguish between training and mentoring on an on going basis (as happened at PBA's courses).

In chapter 2 prior research concerned the process of decision-making under uncertain conditions. Kahnemann and Tversky (1974) suggested that people use sets of heuristic devices to short cut and simplify problems. Kruglanski suggested all decision-making involves some inference rules that are a consequence of human processing. The questions about the PBA's task uncovered their view of the task of providing business advice. Chapter 2 suggested that the PBAs task required judgement. It is an example of decision-making under uncertainty. Certainly the PBAs response suggests they see their job as intuitive. This supports Clarke et al's point that intuition, in combination with normative decision analysis delivers a powerful combination. PBAs also see the task as both intuitive and methodical, and neither simple nor complex. One explanation of this is that the methods used by PBAs simplified a complex

task - heuristically. Thus the task is short cut through the heuristic devices suggested by Kahnemann and Tversky. Many though the job to be both intuitive and methodical, they applied their experience in an informal and non-routine way. All of these demonstrate the conditions for the necessary heuristic methodology adopted by advisors.

Given that this is the case, are there biases inherent in the way PBAs operate? The key problem might be disregarding Kruglanski's known base-rate data: known fundamental data surrounding the survival and growth of SMEs. There may be some evidence for this is in the perception by PBAs about sectors. There is evidence for this, in part due to the generalist role of the PBAs. The PBAs believe that the sector is '*somewhat not important*'. Base-rate evidence would suggest that the sector is crucially important to explain survival and growth of the firm. However, for our PBAs the sector is unimportant, whilst good management is all important. Of course this reflects their job.

The questionnaire draws out falsifying evidence asking support for statements suggesting businesses control managers, that business is all down to luck, that poorly managed firms often prosper and that success in business is largely a case of being at the right place at the right time. The business advisors' views about small business presented following table 36 and were indexed in table 37. Now one can reasonably argue that no PBA is likely to agree to these set of statements, thus these statements do not falsify the model, however, they do not really give it much support either. From this table the index of agreements for statements falsifying the heuristic model shown in table 41.

Table 41 Agreement to Small Business Views

Question	Index of PBA agreement
Even poorly organised firms often prosper.	29
Success in small business is largely a case of being in the right place at the right time.	-34
Businesses control managers; managers do not control businesses	-115
It's all down to luck.	-147

The first level of evidence demonstrates PBAs concern for control. If control is important then PBAs should agree that businesses with clear financial control systems are more likely to survive, and that a significant number of small businesses fail because management lack financial competence. The results from table 37 support this view. Moreover in table 38, the top three causes of business failure were, poor debtor control or bad debts, a lack of management capability and over-trading all of which reinforce the need for control. This view is in accord with research findings on reasons for business failure (Hall, 1995; Baldwin, et al., 1997) There is evidence that advisors look for control and therefore evidence for our weak heuristic model.

Evidence for the second level of the heuristic model requires business advisors to agree to statements about the nature of a well-managed firm. In particular, two statements asked PBAs to agree that setting goals, planning and evaluating progress is the hallmark of a well-managed firm. Moreover, the business advisors were asked to concur with the statement: 'agreement between the firms' objectives and its operations indicate good management'. These two statements about the nature of good management go to the heart of the heuristic model. If PBAs disagree with these statements then that would refute the model. But PBAs overwhelmingly agreed with our conjecture about good management that conforms to our model. Table 41 shows those statements most important to confirm the model and their index of agreement. The index of agreement shows compelling support for the indications of good

management: setting goals, planning, and evaluation, and coherence between objectives and operations.

The index over 100 indicates that a net 57% of respondents agreed. The support for formal business plans is an example, where the net score is 80, that shows a net 46% in agreement. This translates into raw data where out of 175 responses 41 (23.4%) strongly agreed, 63 (36%) agreed, 47 (26.8%) neither agreed nor disagreed, 22 (12.6%) disagreed, and 2 (1.1%) strongly disagreed, indicating a high level of support. Given no a priori comparison between two groups we cannot statistically crunch the data and report these as the index. Nevertheless, it does provide support for the heuristic model of business. The apparent conflict between a score of 164 for setting goals, planning and evaluating progress and the score of 80 for good businesses having formal business plans reflects a view of planning as an active process. Yet caution about formal plans is reflected in the statement by a PBA manager: *'I mean a lot of small companies might have produced a business plan three years ago and it's collecting dust in the corner of the office somewhere.'*

Table 42 Alternative Hypothesis and PBA's Views

Question	Index of PBA agreement
Setting goals, planning and evaluating progress is the hallmark of a well-managed firm.	164
Agreement between the firms' objectives and its operations indicate good management.	153
Businesses with clear financial control systems are more likely to survive	147
A significant number of small businesses fail because management lack financial competence	143
Finance is more readily available for well-managed firms.	120
Successful small business managers know the strengths and weaknesses of their competitors.	116
Good businesses have formal business plans.	80

The evidence from table 42 suggests that:

1. a feedback process whereby goals, planning and evaluation are thought to be the hallmark of good management
2. congruence between the firm's objectives and its operations indicates good management
3. financial control and competence are necessary for survival.

All these statements are not inconsistent with the model of internal firm management presented in figure 7. The survey did enable PBAs to falsify the control feedback model and they did not.

The response to business failure accords with the research of business failure in Canada (Baldwin et al., 1997) and generally in Storey (1994). Businesses fail because they run out of cash, or bank credit. This is largely due to the lack of control and particularly financial control within the business. Thus the ranking of answers about the causes of business failure accords with the research on

the topic. It may also suggest therefore, that PBAs are well aware of the base-rate evidence. Thus PBAs concern about control issues reflects their concerns to prevent business failure. It may also reflect their experience. How many of the PBAs were involved in a business failure was a question deemed too sensitive to ask on the questionnaire. Also noted is the strong emphasis PBAs place on reducing risk. PBAs with, perhaps, experiences of business failure are not therefore going to be heavy promoters of increased risk-taking behaviour. Thus there would seem to be a question mark here about the policy to target essentially risk reducing advice, at potentially fast growing firms.

Table 39 ranks the factors that PBAs considered best explained SME growth. PBA respondents rated the ability to develop new markets and spot new opportunities as the key factors for business growth. These abilities to exploit new opportunities and markets are skills often attributed to entrepreneurs (Chell et al., 1991). Moreover, PBAs growth factors seem opportunistic rather than a result of long-term business planning, ranked seven, and good market research, ranked ninth. Thus the tasks that PBAs deem important for their diagnosis may indeed be inappropriate to promote growth. It may be that PBAs see growth-orientated entrepreneurs as 'begotten not made' one inference included in the personality trait approach. This suggests that growing firms are different to surviving firms. Their emphasis is much more evident on the leadership and competitive strategy rather than control. Yet we have seen that many firms fold in a growth phase when they experience the 'Death Valley curve' (Warnes, 1984). The ability to improve productivity comes in tenth in the list. This contradicts the usual competitive microeconomic result whereby more efficient firms out-compete the others (see any economics text from Smith, 1774). In addition, high profit margins another factor economists usually associate with growth is fourteenth on the list. Thus the improvements in efficiency, debtor control and profitability appear relatively low on the list of factors for growing firms. Moves into new opportunities, suggesting fleetness of foot, is seen as key. This control assures small firm survival; growth is entrepreneurial. PBAs have swallowed the trait approach to growth. The

difficulty with this is that traits are immutable. There is nothing for the PBA to do, the owner is either an 'entrepreneur' or he or she is not. Again the message is that PBAs are unlikely to champion growth in their clients.

The management functions calls again into question the appropriateness of Storey's themes of location, owner-manager and strategy as the explanation of SME growth. The unit of analysis is slightly different. Storey attempted to explain the growth of firms across different sectors including locations, whereas this research takes the unit as the management of the firm. Business advisors seek to improve this management.

Moreover, business advisors appeared able to identify tasks with managerial facets. Table 40 reported the responses to the question about which area managerial tasks such as debt collection belonged. The responses were again overwhelming, except for the case of changing business direction that made it into function of both leadership and strategy.

Table 43 Management Activities and Functions

Function	Leadership	Strategy	Control
Activity	Co-ordinating	Researching the market	Managing stock levels
	Directing purpose	Raising finance	Managing cash
	Developing vision	Setting clear targets	Chasing debts
	Setting clear targets	Setting prices	Producing management accounts
	Changing business direction	Knowledge of competition	
	Motivating staff	Changing business direction	

This table gave me a shock of recognition that Dukes (1984) calls a “eureka factor”. The table does seem to explain the questions that bank managers ask of their clients. Although some of the functions such as setting clear targets do crossover two functions the process appeared to have an at times remarkable degree of unanimity, for example 165 responded that producing management accounts was an element of control. Now if you are looking to examine whether a firm is under control you have a clear message here look for debt levels, the speed and frequency of management accounts, level of cash and stocks. Again looking for leadership in a company the most important thing is to look for is staff motivation. This is why when the advisors responded to the research interview prompts they said they looked for how motivated the staff look. This is not only important for its own sake, it is a proxy measure for the leadership shown by management in the company. Similarly, for strategy does the management know the market? These are the questions that the research interviewees posed to the management’s that they talked to, what they are doing then fits in with the model. Or rather the model of heuristics' fits nicely as an explanation of what it is that advisors do when they assess the problems facing a company. This may be a powerful piece of positive evidence for the control feedback model of SME performance.

What the responses to this question do not do, however, is to show whether the functions of leadership, strategy and control are congruent. For that the responses to views on management research have to suffice. Thus the views about management function do provide more evidence for the different management triad uncovered by our research when compared to the research summarised in Storey, for example.

The allocation of management functions to activities yields a rather different set of factors for 'good management' than that accepted by Storey (1994). In particular, control within businesses demonstrates a concern for the processes within business. The methodology enables themes to be revealed that would not ordinarily be mentioned in the literature. These factors are different from the factors mentioned by Storey (1994).

5.3 Conclusions about the research problem

The research focused on business advice to small firms. Although there is much research on the characteristics of more 'successful' firms, there is with some exceptions much less of a body of knowledge concerning how less successful firms become more successful, however you define success. Calls for advisors to concentrate on advising firms with the potential for fast growth implicitly assume that (a) this can be done and that (b) there is a body of knowledge which to refer. This study aimed to add to this body of knowledge but did so by engagement with practitioners. Thus the research focused on the ways in which the business advisors can attempt to help facilitate the move of a firm from a 'less successful' to a 'more successful' entity. Moreover, those who are attempting to regulate organisations need a model of that organisation (Beer, 1979). Given the unsuitability of much academic research as an explanation of the way in which advisors can assist firms to improve their performance, then advisors will fall back on experience. And experience will simplify a complex task through heuristics. What the research focussed on was this model. This research suggests that the approach taken by business advice practitioners is based upon heuristic devices. This means that there is a clash

between this type of learning and the academic literature in the area. Models were treated with something approaching disdain: *There is no model that I see and the dti pass you out all these things with models for successful growth and no-one conforms to that model.* Consequently, advisors dismiss small business models or see them as for the inexperienced:

We work to a structure and the structure we use a mnemonic, which is over the years becomes embedded like a silicon chip in your brain sort of thing
The mnemonic we use is called PARSERS [spelt it out] and each of those letters relates to a section, and I think what it would be best to do is if I drew it for you because I think this takes me back to this training I was talking about. (Bank Manager)

The models might in themselves be useful, but they are at a level of generalisation, whereas advisers are dealing with individual instances. For example, firms that export are faster growing companies but translating that back into advice for a specific firm is more difficult. Can you advise all firms to export or die? Thus business advice is based upon advisors experience in the small firm sector, reflected in heuristics.

The heuristic approach to business advice then uses signals of well being and good management to indicate not so much business health but that the business is well managed. It is important for the advisors that the management is good; the health of the sector is considered less important.

Advisors are sector-blind. The agreement index showed 173 for the statement: good management is good management; no matter what sector the company is in, and -138 for the statement success depends more upon the sector that the firm is in; rather than the quality of the management. Although advisers' clients might be not so sector-blind, this sector-blindness gives a further impetus to

the heuristic search for generic indicators of good management within bespoke businesses.

The indications of good management come down to the presence of a self-regulating control feedback model and congruent relationship between objectives, strategy and control within the business. Thus PBAs felt that the most important cause of business failure was poor debtor control, followed by a lack of management capability ranking higher even than lack of demand. This concentrates on internal failure, which is understandable given the PBAs role. Business growth on the other hand came down to the ability to develop new markets, to spot new opportunities, increase demand and bring new products to market. The latter is interesting. Advisors believe that new products are important for business growth but not for survival. They also believe the ability to develop new markets is crucial but market research is not. Views regarding survival and growth do not correspond despite evidence that growing firms are more likely to survive.

Views surrounding survival and growth are yet not the whole story. Heuristics such as tidiness, seen as evidence of good housekeeping were not asked in the questionnaire and perhaps should have been. Nevertheless the control feedback model does appear to explain the research issue.

Now consider the methodology of management assessment using error signals. The use of error signals is 'one step back'; it describes the way in which PBAs make assessments. The idea that business advisors use error signals in their assessments of the presence of self-regulation within the firm, was investigated by re-coding the interviews with PBAs. The results of this can be seen in table 26. This does seem to show that the idea has merit. Business planning might indicate congruence between strategy and control. Advisors complaints about the lack of business planning were very evident throughout the research. Moreover, the qualities associated with vision pointed out by advisors can be

seen most clearly as a positive signal that the owner-manager has objectives that they pursue congruently.

Moreover, the model represents capable internal management. As such the business advisors, from whom the model derives, agreed with Penrose and the resource-based theory of the firm that capable management was key; in doing so. they took account of the evidence of new firm failure (Hall, 1995; Baldwin et al, 1997) It is debatable whether the business advisors had ever heard of the resource-based theory of the firm, although I would expect that they had heard of Edith Penrose; that they have come to similar conclusions, that management capability and development is the key to small firm success is perhaps all the more remarkable. The business advisors tended to describe themselves as practical rather than theoretical. Indeed the ten PBAs interviewed dismissed theory as '*of little practical use*'. Nonetheless, they may be theoretical; just not exposed to the most relevant theory. The business advisors certainly saw capable management as the key to growth, which accords with resource-based theories of the firm.

Resource-based theories of the firm argue that the challenges faced by the firm and its management develop competence (Garnsey, 1996). Thus, Garnsey believes that the start-up firm meets the first challenge to raise finance before any other challenge. Competent management enables the firm to grow, where it meets further challenges. The results of the research establish business advisors' preoccupation to verify that the firm's management is competent.

The responses of the interviewees and the questionnaire responses all lead to the conclusion that the major emphasis of business advisors is to enhance or ensure management capability. To re-iterate the words of an interviewee employed by a bank '*if you go and look at the good, successful small and medium sized enterprises, and analysed all the really, the different aspects, I think you would probably have to pin point to the fact that the thing in common was good management.*' The questionnaire responses confirmed these sentiments. The index of agreement

totalled 143 with the statement: A significant number of small businesses fail because management lack financial competence. Respondents overwhelmingly disagreed with the statement equating success with sector rather than management quality. The index of agreement tallied -138 with the statement: Success depends more upon the sector that the firm is in; rather than the quality of the management. Now the advisors could, in the latter case, have expressed views about the sector rather than management quality. After all, evidence suggests that rapidly growing sectors also exhibit high death rates for small firms (Birley, 1986). The index of agreement reached 173, however, for the statement: good management is good management; no matter what sector the company is in. The lack of management capability ranked second as a cause of business failure, a factor other researchers recognise (Hall, 1995, Baldwin et al., 1997). In addition, the seventh ranked cause of business failure was lack of managerial skills according to personal business advisors. Personal business advisors credit management capability with at least reducing the risk of a failing business.

The emphasis on management capability from these responses does seem to be associated less with the growth of the firm and more with firm survival. This is interesting. Penrose (1959) developed a theory of the *growth* of the firm (my italics). Resource-based theories often examine the growth of the small firm (for example Garnsey, 1996). Personal business advisors seem to associate management competence and capability with firm survival; not growth.

Why would personal business advisors associate management capability with firm survival, rather than growth? It may be that their focus is on firm survival rather than growth. Certainly, with the high number of failing firms bank managers should be more concerned with failure than growth, despite evidence that associates growth with survival (Smallbone et al. 1993). And the high numbers of failing urban firms (Keeble, Walker and Robson, 1993) might concentrate advisors' attention on firm survival. Business Links Personal Business Advisors remit requires them to help firms to grow, however. The

unanimity between interview responses and questionnaire responses suggested that either PBAs are not concerned with growth, or management capability had more to do with survival, than growth. The thesis explores the first reason later. The second reason that management capability is associated with survival not growth seems interesting.

It might be that PBAs believe that the size of the market dictates the firm's ability to grow, in the short-term at least that is given. Management capability would dictate; therefore, small firm success subject to the growth and size of their market. Some commentators argue that survival in small businesses that are in inhospitable environments such as businesses serving the black community take every bit as capable a management as growth in a favoured climate (Ram, 1993). Then again, Birley's (1986) research suggests even fair weather sectors display high firm 'churning'- many firms are born but many die. The PBA questionnaire respondents ranked lack of demand fifth as a cause of business failure and ranked increases in demand for the product or services third as a cause of business growth (tables 38, 39). Thus market conditions may explain some of the difference between growth and survival.

But the firm's management can make a difference to their markets. They do not need to passively accept the changes to demand. If the firm is to do this, however, it must change its opportunities. Table 39 highlights the key strategy and marketing roles in growing small firms: the ability to develop new markets, the ability to spot new opportunities, and the ability to bring new products to market ranked 1, 2 and 4 respectively as important causes of business growth. Firms and their management can expand their opportunities.

The expansion of firms' opportunities brings the argument back to the dual 'schizophrenic' nature of small firms whereby firms both pursue expanded opportunities and tightly control internal operations and finance (Hughes, 1998). Certainly, PBAs are aware of the need to develop new markets, products and opportunities; yet. seem to omit the connection between these outward-

looking activities and management capability. Advisors may distinguish between capable management and what they might consider opportunism. Advisors distinguish, perhaps, between capability and entrepreneurship.

Researchers have distinguished between entrepreneurs and caretakers as types of managers. Stokes (1995) suggests a range of entrepreneurial personalities ranging from passive, low growth 'isolationists' to opportunistic 'classical entrepreneurs'. Indeed our interviewees suggested the need for different kinds of management as the number of employees increased. And this has influenced those training PBAs. Agar (1994) suggested that those firms with ten to thirty employees must develop a balanced management team. The popular image of the entrepreneur, however, is much more about an opportunistic approach to business. The entrepreneur is a buccaneering hero providing the right product at the right time but with little back up or organisation. Some have seen this character as a visionary who persuades others to follow- with the money (Schumpeter, 1976; Chell, 1991).

The personality trait approach to small business research abates any attempt to teach the outward-looking, opportunistic, entrepreneurial elements, which many associate with growing businesses. The trait idea posits the implication that personality is unchanging. Although researchers have impugned the trait approach both in psychology (Hampson, 1988) and within small business research (Cooper, 1995) the approach lives on in courses. Even if the courses suggest that small business people's personalities are found 'at both tails of distribution' our interviewees mentioned personality and the trait approach. The implication is that the outward-orientated approach requires an outward-oriented personality- something immune to teaching. Thus, like the erstwhile British view of footballers, entrepreneurs are begotten; not made.

Business advisors concentrate on overtrading problems because Garnsey's (1996) growth reversals cause difficulties. Garnsey argues that the growth of the firm depends upon the differences in the growth-enhancing system dynamics

and the growth-constraining system dynamics. PBAs might concentrate on mitigating growth reversal dynamics. Thus, the emphasis on control and internal monitoring not only reflects the prior knowledge of business failure but reflects the experience of growth reversals.

Fluctuations, bottlenecks and shortages characterise growth reversals (Garnsey, 1996). At the growth plateau, employee motivation declines when individuals direct influence on outcomes wanes or staff 'burn-out' (Kotter and Sathe, 1978). With the increased firm size, firms become complex. Firms consolidate, after they employ, say, fifty people (Churchill and Lewis, 1983; Agar, 1994) and managing a complex organisation slows decision-making. Penrose (1959) believed that the key growth constraint is the managers' difficulty in managing a complex organization. Rapid growth constraints can build steadily as a niche market is saturated and the growth in orders slows. Uncertainty favours firms that enthusiastically adopt best practice and survey markets and technologies (Teece and Pisano, 1994). On other occasions the reversals can occur suddenly. Writing from a financial perspective, Warnes (1984) characterises rapidly growing firms going through the 'Death Valley curve' where cash haemorrhages from the company. Thus, growth reversals result from growth.

Paradoxically, then PBAs by reducing the firms emphasis on fast growth might reduce the likelihood of growth reversals. When the PBA concentrates on the lack of control within a business she or he attends to the factors that can cause a growth reversal. When the PBA counsels against growing too fast they echo Penrose and the resource based theory of the firm: *'And the one they fall down on most isn't the money. It isn't the men. It isn't the market. It's the management that they fall on so frequently'* (PBA). Of course, one might take this too far and throw away growth for fear of growth reversals. Yet one of the implications of the resource-based theories is that growth challenges management. Only through growing the firm can the management develop the competence and capabilities to deal with the issues surrounding growth.

Moreover, this anti-growth reversal view would not condone PBA's reluctance to help firms to attack new markets, adopt new practices and technologies that augurs badly for their impact on growth. Perhaps, the generic nature of the PBA service mitigates against specific marketing advice. The firm, aware of developments in their market, might have much more information than the PBA. Whereas for a generic PBA switching from one set of financial figures to another, or switching from the one floor layout to another, may involve relatively light information requirements, switching from one sub-market to another requires a gamut of prior knowledge. So much so that it is the highest ranked requirement for banks to assess a lending proposition (Fletcher, 1996). Banks understand the sector-specific nature of firm knowledge. The expense of the PBA service, however, precludes it being sector-specific thus commentators have favoured generalists (Agar, 1994). Therefore, the institutional nature of the PBA service, and its expense constrains their ability to promote growth to small businesses.

The PBA service is expensive (Bennett, 1995). Although many small and medium sized businesses want sector-specific advice the PBAs are generalists. Agar (1994) argued that generalists avoid doling out the sector received wisdom. Yet in routinized sectors that have accepted ways of doing things (Audretsch, 1995) this might be just what small businesses need. The real problem with sector specific PBAs is that of cost. Business Links would have to specialise into sectors, where they believed the returns to advice would yield the most benefits. Local business cliques (involved in Business Link boards) lack the knowledge to make such a decision (Peck, 1995). Moreover, the decision would fragment the representatives of local capital because a favoured sector would result (Eisenschitz and Gough, 1998). The structural context limits the policy options.

The client group that PBAs see may require survivalist advice. More successful entrepreneurs might reason that they had little to gain from Business Link. Indeed, it is not always clear that managers of rapidly growing companies need advice (Bryson, Churchward and Daniels, 1997). Government sent mixed

messages whereby they wanted PBAs to concentrate on growing firms, yet introduced quantitative performance indicators; moreover, few Business Links target (Deakins, 1996). The group of ten PBAs explained the process through which they met clients thus:

It depends on whether it is from the tele-sales team or not. if a company calls in here with a specific problem then the customer service team may or may not. It depends... You see a lot of clients that don't want to expand. It's a lifestyle business. The companies probably got a perceived problem or a perceived key issue... once the conversation and have got the work it often spawns something. You build a picture of what is actually happening, and what the actual key issues are. and then you take it from there. (PBA Group)

Thus, PBAs often saw whoever came to them or tele-sales leads. And researchers noted the scepticism of the targeting policy among PBAs (Agar, 1994; Agar and Witzel, 1994; Bryson, Churchward and Daniels, 1997). Firms experiencing growth reversals or declines may require risk-averse advice. Indeed the emphasis on control rather than growth might reflect the PBA's client list.

However researchers explain it, because advisors reduce the risk of growth reversals, because advisors know the risk of bankruptcy, because the institutional nature of their position hampers growth, PBAs advocate growth measures reluctantly.

PBAs risk-averse policies may enhance development locally. Keeble, Walker and Robson (1993) suggested that urban areas suffered from high firm deaths. Human population rises result from improved homes and factories that caused lower death rates rather than increasing births. Similarly, lower firm mortality

would increase their number; moreover, enterprise agencies effect such a lower firm mortality (Keeble, Walker and Robson, 1993). Thus PBAs risk-averse policies may augment firm numbers within their areas.

Increased firms numbers tends to swell territorial riches. First, the enlarged pool of firms upon which Hannan and Freeman's (1989) selection processes would operate will select more adapted firms. Second, some debate that the smallest firms create more jobs and growth fastest (Daly, 1995; Hart and Oulton, 1996). Third, the richest area of the UK is characterised by a very high number of firms and a high percentage of the firms with less than five employees. Fourth, international research associates firm numbers and economic growth:

the conjunction of intense entrepreneurial dynamism and rapid economic growth - coupled with low unemployment and low inflation - seemingly points to only one conclusion: entrepreneurship fuels economic growth, creating employment and prosperity (Reynolds, Hay and Camp, 1999: 7).

Although, Reynolds, Hay and Camp (1999) correlate business start-ups with economic growth, rather than the number of firms, they claim that the levels of entrepreneurial activity determine economic success.

Chapter five presented the conclusions about the research question. It furnished evidence in support of the heuristically derived model of business support, presented in chapter four. In particular, the results show evidence for the model of internal management, based on the owner-manager, their strategy and the degree of control exercised within the firm. In addition, some evidence for the idea that advisors seek congruence within a business was presented. The next chapter discusses the implications for practice and theory.

Chapter Six

CONCLUSION AND SUMMARY

6.1 Introduction

The final chapter in the thesis is a re-statement of the previous chapters, to help clarify the thesis, to clarify the argument, and summarise the last five chapters. The thesis has considered the area of business support to small business in the UK, an important area of public policy, and one that has undergone a change of emphasis in the last ten years, from blanket support to all small businesses, to targeted support for those with growth potential. Switching support recognised that small businesses create jobs unevenly. Few firms create many jobs. The recognition that a few fast growing firms create the lions share of jobs, however, does not simply suggest that switching resources will maximise the efficiency of business support in terms of jobs created. The new policy has to engage with the conditions within these fast growing firms and the policy has to facilitate their growth and job creation. The thesis reveals that business advisors derive their own theory from their experience, and that this theory is concerned with the internal management of the firm, which reflects the factors that cause business failure rather than the factors that accelerate growth.

The sections that follow answer several crucial questions for a piece of research. In turn, the final chapter responds to the following: what was the research question? Why is the research question important? What have I found? Why are the findings important? What claim has the research to validity, why so? And finally, why now? In response, to these questions it is hoped that the chapter clarifies the contribution to knowledge within the thesis. First, the research question.

The broad area of the research is UK business support to small businesses. The research recognised that small businesses make a vital and increasing contribution to advanced industrialised economies, but that not all SMEs make this contribution. Some SMEs contribute more than others. The consequence of this stylised fact is that some influential academics, like David Storey and David Smallbone argued for a switch in business support to a targeted approach. If 1-in-10 businesses are those that create prosperity, then let the government support the 1-in-10. The other side of the existing policy was that 90% of existing business support was wasted. The argument may have looked like a return to the picking winners approach but in essence it was not. Storey's and Smallbone's advice was to ignore start-ups because within three years 7-in-10 would have become bankrupt. Thus, if the government merely withdrew from support to start-up businesses that would improve the efficiency of business support. But how to put the targeted policy into practice?

6.2 Targeted Support

The targeted policy came along at the right time. Michael Heseltine rationalised the confused myriad of UK business support into one-stop-shops, later re-branded as Business Links. Thus, a fresh policy start was taking place and the new idea to target support could be built into the new edifice of business support. In public policy terms this reflects the policy streams approach to policy making, a variant of the general muddling through policy making style (Lindbloom, 1960) Thus, Business Links needed a policy, fresh institutions can operate with new policies, and the targeted approach came together with the PBA service. The PBA service was a development from academic discussion too.

The perceived individuality of small businesses, like unhappy families, each in a different way, and the idea to target growing companies, gave birth to the notion of a bespoke service that helps the growth business in the best way it can shorn of the one size fits all business support programmes. Thus was born the PBA. The PBAs role was as a generalist to signpost the growing company to helpful advice provided by government programmes or to consultants, within Business Link.

The switch of policy amounted to a new theory of business support. The old theory said support all businesses and encourage start-ups. The new theory ignored start-ups and concentrated on established businesses with the potential to grow. The old theory provided programmes of help to businesses. The new theory provides a diagnostic of your particular business by a generalist. The old theory concentrated on provision of courses. The new theory concentrates on the business improvement of client businesses over time. Whereas the old theory provided a little support for all businesses that wanted it, the new theory aims to improve a targeted number of growing firms, with a bespoke resource-intensive relationship. In terms of biological parenting behaviour, the old theory is akin to the mosquito's parenting behaviour, the new theory akin to the elephant's parenting behaviour.

The new theory demands much more parenting by the business support agencies but spread over a much smaller number of offspring. The thesis concerned this parenting. How do the newly blessed business advisors cope with their new bundle of joy? Just as little existing courses help new parents and they fall back on their experiences, good or bad; Business Links recruited PBAs with small business experience to fall back on. Although courses for the new PBAs were set up, notably at Durham University, much of their knowledge was gained from experience. The research set out to explore and make explicit this knowledge. As such this research can be seen within studies of problems implementing policy. The research set out to explore aspects of how the new policy toward business support was being implemented.

The question is important due to the contribution small firms in the economy and society. Small firms may make more difference to the economic growth rate than large firms, one implication of Hannah's (1996) work. Small firms contribute to the growth of new innovative technology based industries. The technology developed in smaller firms is often finally adopted by many large firms in diverse industries (Pavitt, 1993) which makes its impact pervasive. In the last twenty years, although researchers argue about specific numbers and methods, it is clear that small firms

have created many jobs, in an era of relatively high unemployment. Small firms matter. Hence, the effectiveness of business support to small firms can add significantly to the dynamism of the economy.

6.3 Management Capability

The research found that business advisors of all persuasions use knowledge gained from experience, sometimes painfully, to supplement any theoretical knowledge available. In particular, the PBA attempts to ascertain the capability of the management of the business. PBAs believe that business success is largely a matter of capable management. Thus, although luck may play a part in the capricious nature of competition for the small firm, capable management can steer the firm through any choppy waters. Capable management, however, is not easily assessed.

In this assessment of management PBAs follow two logical arguments. First, empirical evidence from the SME sector across different nations ranks inadequate internal management as the most important contributor to the failure of the firm (Hall, 1995, Baldwin et al. 1997). Thus, small business advisors are using existing known data as the basis for policy, what Kruglanski (1992) calls base-rate data. But the implications of this for the new targeted theory are important. Secondly, PBAs concentrate on the areas where they can have some effect. Thus although the cost of capital, levels of aggregate economic demand, or population shifts within the local market may significantly affect the growth rates and death rates of small businesses in their area (Keeble and Walker, 1993) the PBA concentrates on the internal workings of the firm to improve their chances within an environment where neither have much control.

To assess the management small firm advisors turn to proxy indicators. The first, and most important, of these proxy indicators is control, both financial and physical. Financial control follows the prescriptions contained in Warnes (1984). In the Genghis Khan Guide, Brian Warnes argues that business people must understand the rudiments of accounting to make useful decisions. Warnes argues that the 'barrow-boy' understands the need to turn cash over and make cash earn

its keep. As Warnes puts it *Very well run companies produce key 'control' information weekly.*' (1984:4). Yet although the prescriptions contained within the Genghis Khan Guide, to concentrate on break-even, gross profit margins and cash, can free cash to improve business health, Warnes suggests survival is its primary motive: *'...this book is designed to help; to help you, at the most basic level, to survive, more or less regardless of the economic climate'* (1984:11). Warnes suggests [manufacturing] companies should aim for a breakeven below 70% of capacity and gross profit margins in excess of 40%. He suggests that companies earning less than 25% gross profit margins are likely to fail, and *'the lower the margin, the sooner it will fail'* (1984:32). Thus, financial control manages costs, shown in sets of accounts.

Factory visits determine physical control. A participant in the research interviews reappraised a business client as lacking in control, after he visited a financially successful but messy premises. The layout and materials flow through premises indicates that management has thought about efficient production. Indeed, Warnes (1984) suggests small business management underestimate the financial gains from productivity gains. Secondly, the advisors consider tidy premises to indicate 'good housekeeping'. Good housekeeping, neatness and tidiness indicate a well-organised premises. Tidiness indicates good management; good management translates into business success. The most important element of management for business advisors was control. They wanted to identify control within their client's business.

In addition, whilst advisors seemed sceptical about the degree of strategic management within small firms, they questioned the manager's strategy. Questions that bank managers and other advisors asked their clients probed their knowledge about competitors and the marketplace. Moreover, they wanted evidence that the firm's objectives, strategy and control cohered.

Business advisors examined the degree to which businesses cohered and controlled. They wanted evidence from accounts and from the premises of capable management. Capable management controlled their businesses. They also wanted to know that the objectives, the owner's vision, and the strategy, what the company

did, fitted. For example, advisors told 'horror' stories where the proprietor did not know the product costs. Management should emphasise the bottom line, rather than top line.

The role of business advisors within the small firm sector, particularly PBAs is important. The policy, recommended by Smallbone and Storey, to target help for fast growing companies depends on business advisors' advice. The advisors are there to signpost the advice that they negotiate with the company. If the advisor's concerns concentrate on the those areas likely to ensure firm survival, then there is at the very least some question about how Business Links deliver the new policy. Apart from the question of how Business Links target growth companies, the advice firms receive appears to reinforce survival rather than growth. This might be best advice. The survival promoting advice may result from a failure by the parent organisation to target growth firms. It might reflect a public sector view that to only advise a minority of firms is unfair (Hutchinson et al., 1997). The advice might reflect the business advisors' experience. It certainly reflects the known vicissitudes within the SME territory. And the government's emphasis on the quantity of businesses PBAs advise as a measure of performance, a measure of quantity not quality, contributes to the lack of targeted business advice, and sends a mixed message to Business Links. Nonetheless, PBAs concentrate their best advice on firm survival. PBAs, like civil servants, have discretionary power within the policy, they diagnose companies, they can choose to some extent what to believe about good management and this enables the PBA service to alter the policy at its implementation stage (Lipsky, 1980).

In doing so, PBAs change policy. The policy aimed to encourage growth firms. In practice, the policy might be ensuring that more firms survive, precisely the policies criticised by Story and Smallbone, with one proviso only established firms over five employees can access the PBAs. Thus the policy targets not growth firms but established firms. Indeed, the policy might target those firms that grow from 5 to 10 employees identified by Daly (1992); therefore Business Links may reduce small firm death rates. Keeble and Walker (1993) found that enterprise agencies reduced

death rates. All this is not to blame Business Links for not implementing the new policy; the implemented policy might be excellent, just not what government intended.

What evidence does the research present to reinforce these claims? First, the thirty semi-structured research interviews with thirty-nine business advisors (one interview was of a group of ten PBAs) yielded qualitative data reflecting advisor's views about small business growth. These analysed interviews, within a phenomenological framework based on Hycner (1985), formed the basis of a model of the internal SME management. Thereafter, a self-administered questionnaire to all personal business advisors in England and Wales confirmed the findings. PBAs agreed that businesses with clear financial control systems are more likely to survive, and that a significant number of small businesses fail because management lack financial competence. Moreover, PBAs believed that the top three causes of business failure were, poor debtor control or bad debts, a lack of management capability and over-trading all of which reinforce the need for control. This view is in accord with research findings on reasons for business failure (Hall, 1995; Baldwin, et al., 1997) There is evidence that advisors look for control. Secondly, the model of internal SME management argued for a feedback process where the manager's objectives, his strategy and his control cohere. The model argues that this is the hallmark of a well-managed firm. In particular, two statements asked PBAs to agree that setting goals, planning and evaluating progress is the hallmark of a well-managed firm. Moreover, the business advisors were asked to concur with the statement: 'agreement between the firms' objectives and its operations indicate good management'. These two statements about the nature of good management go to the heart of the heuristic model. If PBAs disagree with these statements then that would refute the model. But PBAs overwhelmingly agreed with our conjecture about good management that conforms to our model.

The evidence from table 42 suggests that:

- a feedback process involving goals, planning and evaluation is thought to indicate good management
- congruence between the firm's objectives and its operations indicates good management
- financial control and competence are necessary for survival.

All these statements are consistent with the model of internal firm management presented in figure 7. The survey enabled PBAs to falsify the control feedback model and they did not.

6.4 Implications for theory

This research approaches the problem of small business performance from the angle of those given to making interventions - business advisors. As such the model derived from the research interviews and, subsequently borne out in the questionnaire results, is a heuristic control feedback model of good management in small firms. The model then draws upon the insights into decision-making of Kahnemann and Tversky, that human information processing uses short cuts, to the task of intervening in SME performance. Consequently this is a rather different model of SME performance than that collected in Storey (1994) or indeed the logical positivist approach of Casson (1992). Instead the approach contributes a heuristic model of SME performance consistent with the interventions by PBAs - practitioner based model. It therefore derives from a more qualitative approach and incorporated experiential learning. There are drawbacks from this to be discussed in section 5.6, but on the whole it provides a fresh method to consider SME performance. The theory presented here incorporates human processing and practitioner's experiential learning within a model of SME performance.

Whilst the importance of both control and strategy is not news to researchers in the area or indeed small business owners, the model shows how control feedback loops can enable SMEs to self-regulate themselves.

SME performance as far as business advisors are concerned depends upon sector-blind, good management indicated by control and congruence between objectives, strategy and control. This model contributes to our understanding of how business advisors intervene in small businesses. It contributes to the debates about small business growth and failure. The model found here differs from that espoused in Storey by amending the three areas of individual, strategy and firm. Instead of the firm, control becomes the third part of the tripod holding up good management within the SME. In addition, the process depicted is dynamic and interdependent.

Moreover, figure 11 is amended by considering the links between the two not merely as intersections but as circular feedback and congruent components of good management.

The model presented here shows the 'split-personality' within the growing firm; where an extrovert strategy makes links with the environment, explores new markets, and develops new products; yet an introvert control monitors internally, orders the workspace, and manages cash flow. The systems approach to the model explains that the control function both provides control and creates a negative link in the system. The negative link makes the system a self-regulating one rather than subject to instability. In this dual respect the findings support those by Hughes (1998), who found that firms who grew consistently monitored their progress with strong internal controls and management information, yet sought new opportunities through empowered staff. The need for successful firms to control overrides the tactic of delaying payments to creditors to maximise returns from holding cash, something that the successful firms do but economists sometime question. Companies resort to creditor strain (as Warnes 1984 calls it) only in difficulty because relationships with

suppliers are extremely important for the growing company. Indeed, many of the findings vindicate Warnes (1984)

Warnes in the *Genghis Khan Guide to Business* argues that companies failed

'for one overwhelming reason (in both senses of the word): management did not seem to have a sufficient understanding of cash flow; nor of the detailed nitty-gritty that goes to the heart of making a business- any business- work: understanding the relationship between break-even point and margins for instance' (1984:ii).

Mentioned by a PBA in a research interview, the book concentrates on methods to reduce risks and increase profits in companies by internally generated funds. The views of our business advisors complement the book. The business advisors saw internal management control very much in the same way that Warnes does: it is about producing timely management accounts, making cash and profit more important than turnover, and planning production. The argument dovetails into the idea that PBAs are survivalists. Warnes's argument that improving profits is better through reducing break-even rather than adding extra sales is survivalist. Warnes (1984) wrote a survivalist tract. The ideas within his book influenced advisors immensely, though they may be standard practice for accountants.

And yet Warnes (1984) for many years ran a venture capital company. The thrust of *'Genghis Khan'* is to reduce risks within the business; not something that many immediately associate with venture capital. Warnes points out that successful companies are controlled financially - through strong internal management information, as do our interviewees and other researchers (Hughes, 1998). Tension between the controlled company and the outward more cliched entrepreneurial management exists but it is a healthy tension. Indeed, improving gross profit margins enables the growing company to

finance high research and development costs and higher overheads than a firm that slashes overheads in an effort to withstand a reverse in profits and growth. His section on company doctoring suggests rescued companies should introduce new product lines. Thus, the survivalist and the growth emphases are two parts of the successful firm's personality.

Business advisors' emphasis on capable management supports Penrose's (1959) theory of the firm. The support extends to the resource-based theory of the firm: advisors believe capable managers can access finance; advisors believe capable managers can survive inhospitable climes; and advisors believe capable managers can achieve success, no matter what sectors they supply. The key to small firm success for advisors, whether bank managers or PBAs, lies in the capability of the management. Inadvertently or not, PBAs seem to use the resource-based theory of the firm. Indeed, it seems that the criticisms of resource-based theories, that they ignore the market, could apply equally to PBAs!

The risk-averse attitude seems to apply to PBAs, bank managers, accountants, and advisors such as co-ordinators for the Princes Youth Business Trust. All these groups share the survivalist fervour. At this stage I would suggest, Warnes notwithstanding, that venture capitalists are different. They need growth to make their return. Their rewards are based on picking one-in-four winners. If the other three plateau to a modest size that would make its bank manager content, it is not enough for the venture capitalist, they need two-out-of-five, say to take to the stock-market to provide their returns. The incentives for the venture capitalists are significantly different. Thus, whilst I would suggest the model applies to small firms; the emphasis put on the model by venture-capitalists differs. In particular venture capitalists seem much more influenced by leadership (Muzyka and Birley, 1997) than the accountants, bank managers and PBAs. Thus figure 10 must be altered to put business advisors on the same side of the triangle of interest with accountants and bank managers. Given that

all three provide business advice to SME their advice might be consistent, which one might expect to reinforce its effect.

6.5 Implications for policy and practice

The implications for policy and practice, given that the research investigated the practice, mainly concern the policy to target growth firms. Given that PBAs are concerned with the identification of good management the emphasis on growth-orientated firms needs to be clarified. The key to SME support by PBAs is to enable growth-oriented firms achieve their growth whilst circumventing the pitfalls such as over-trading. PBAs are not, however, likely to sell growth to the firms because of the associated problems. Moreover, the PBA is in the position of attempting to establish credibility. Consequently, PBAs shy away from any attempt to 'sell' fast growth or a growth-orientation to their clients. Whether, the capability for growth will increase as a result of a longer, successful relationship remains to be seen. For example if the firm finds success in a quality-improvement, or productivity improvement exercises and finds itself more competitive, it might lean more towards growth. However, the policy implication is that PBAs perhaps reduce the failure rate amongst firms rather than increase the 'flyers' or 'gazelles'. Indeed, given the preoccupation with the problems associated with fast growth the average PBA is likely to persuade an entrepreneur to constrain growth, in order to preserve cash flow. It maybe therefore that the presence of PBAs reduce the growth of client's turnovers, from what they would otherwise have been, whilst increasing the survival rate of firms. PBAs then reduce riskiness of SME growth firms, rather than increase growth. Thus the effectiveness of the PBAs and Business Links is not seen by the rate of growth of business nor the number of new business, rather PBAs act to reduce the death rates of firms and thereby increase firm survival rates, their longevity, and life expectancy. This would concur with findings about enterprise agencies (Keeble and Walker, 1993)

The advisors views are heavily weighted toward the problems associated with fast growth, despite research evidence that suggests growing companies have a

higher rate of survival too. There may be several reasons for this. First, though it seems unlikely to promote growth amongst small firms, the emphasis on constraints might be a perfectly feasible method to assess the potential for growth of an SME. Second, the relationship between advisors and firm owners is akin to a customer. The PBAs is in many cases attempting to establish rapport and credibility with the business owner. Under these circumstances the advisor may tread very carefully, although other advisors face no such pressures. Moreover, the quantitative targets given to Business Links by central government are another burden on the PBA's relationship with the business owner. Third, many PBAs are recruited from ex-small business owners and their experience might well be of struggling against survival, which most small businesses do. Indeed, experience of fast growth in a small firm over the long-term is exceptional. Fourth, following on from three, the experiences of PBAs in the small firm sector might lead them to believe that the key to small firm support is survival rather than growth. For whatever reason it appears that advisors react to fast growth in a manner that emphasises the difficulties associated with it.

Further, remarkable by their absence in these responses is any mention of the ability to seek out new markets, ability to export or alertness to opportunities. Market research is mentioned once. Out of the top five responses all but one mentioned the problems of fast growth. Four times as many advisors mentioned that the business owner needed to make sure that there was room in the market; as those that mentioned developing the market. Marketing, seeking the customers for growth was mentioned by only three advisors. Table 44 takes these codes and places them in themes concerned with expansive strategies to achieve growth versus obstacles to fast growth.

Table 44: Expansion versus Control

Expansive strategies to achieve growth	No mentioned	Control of/Obstacles to growth	No mentioned
Marketing	3	Properly financed/overtrade	9
Plough back profits	3	Room in the market	4
Vision	2	Good management	4
Seek help	2	Manager wants to grow	3
Recognise a niche	1	Production capacity	2
Hard work	1	Business Planning	2
Lean manufacturing	1	Enough employees	2
Culture to adapt	1	Local competition	2
Innovation	1	Factory space	1
Unachievable targets	1	Control overheads	1
Owner's Attitude	1	Under control	1
Developing his/her market	1	Prior sector experience	1
Keep up to date with technology	1	Organisational structure	1
		Proprietor understands the implications	1
		Product which is needed	1
Total	19		35

What is demonstrated is an emphasis on the barriers to growth and the need for control rather than an expansive type of advice. Advisors cautioned against overtrading and would prefer a planned expansion rather than a dash for growth. PBAs echoed their view of the difficulty in impressing fast growth upon firms or approaching the subject with the bias towards fast growth.

Um you've got to be so careful. You've got to address all the issues. It's no good saying that we want to go for sales or we want to go for profit. You can go for profit and run out of cash. You would need to get to grips with a lot of issues. Very difficult you would never go in like that. (PBA)

Well I wouldn't advise them to go too fast to start with... (Accountant)

"In the answer to your question further back was. You're working from a presumption of companies wanting to grow and develop. And that isn't necessarily the case is it."

"If you leave that out of it then your questions change."

"The key question is what does the company want to do?"

"Because otherwise we go in proscribing where they do and what they do."

We have to go in with a blank sheet of paper and listen to what they want."

You know, and it can be anything from I want to retire to I want to be a multi-million pound rocket scientist. And anything in between." (PBA

Group)

Yet given the, perhaps healthy, scepticism of business advisors to encouraging fast growth within firms; is the practice of Business Links and the policy to target fast growth companies consistent? The policy to target fast growing firms can take place at a stage removed from the PBA. Advisors mentioned finance more than any other factor when they responded to the fast growth question. Fast growing firms require cash. This requirement put many advisors into a cautious standpoint because in going for growth the small firm needs to deal with many inter-linked issues. So, advisors stress business planning and cash control in the face of a fast rate of growth. Advisors suggested having the right production facilities, markets, championing of the product, competitiveness and flexibility. Many of our advisors approached the task of advising fast growing companies with a great degree of scepticism. On the ground, they wished to help, support and guide the SME manager in all aspects of the business not just to promote growth.

This research suggests that small business advisors tend to offer support to firms in all categories of development but focus attention on survival rather than growth. Thus advisors wish to 'control growth', and stress the inherent risks involved in fast growing firms. Yet, in doing so how are PBAs fulfilling their remit from the dti? This research suggests that there is policy dissonance within support to small firms. Government policy has developed from blanket support to new firms, to targeted support at growth firms. Business advisors, however, are apparently reluctant to target and promote growth. PBAs act to reduce insolvency rather than enhance growth and job creation?

The implications of this policy dissonance between the expressed policy from the dti and the implementation of the policy link this research into another field, that of policy process research (see Hill, 1997). The study of how policy, particularly public policy is a field more the concern of political scientists. Writers such as Lipsky (1980) have explored the implementation of policy at lower levels in an organisation. It is in organisation where organisations require people to make judgements about others, just as PBAs are required to make assessments about small firms. Lipsky argues that such employees have a great deal of discretion. He calls those charged with implementing policy "street-level bureaucrats", and argues that they make policy. In this research the PBAs are the small firm policy-makers "street-level bureaucrats", and their policy seems to be not to target growth firms, not to provide assistance to growth but to support all the firms that they can and to reduce the likelihood of failure amongst them. They may be right. Nonetheless, this research does indicate differences between the expressed Business link policy and policy as implemented by Business Link.

Where does this leave UK small business support policy? The government issued a consultation paper on a proposed small business service in June 1999. The Small Business Service is designed as a British version of the highly reputed United States Small Business Administration (SBA)(Reynolds, Hay and Camp, 1999). It will act: as a voice for small business at the heart of government, to simplify and improve the quality and coherence of

Government support for small businesses, and help small firms deal with regulation (dti, 1999)

The research presented here is most relevant to *'improving the coherence and quality of Government support for small businesses'* (1999:5). The Small Business Service is to take over the Business Link network and provide the single gateway to small business services - similar to that envisaged the Michael Hesletine's one-stop-shops (dti, 1994). The service will be a Next Steps Agency at arm's length from government but with access to ministers. The Chief Executive will be supported by a council of between 9 and 12 independent members, representatives of small firms and entrepreneurs- the Enterprise Council.

The Small Business Service's aims are slightly different from Business Link's present aims. The consultation paper states:

the Small Business Service will offer help to a wide range of customers - from start-ups and micro-businesses to high-growth firms and those employing up to 250 employees...the focus of support will be aimed at removing barriers or providing assistance at each key stage of the firm's development (1999:5).

The Small Business Service (SBS) is to be comprehensive. The government seems to have rejected the Storey and Smallbone thesis that the support for start-up firms wastes resources and that firms that survive three years have earned the right of support. Nor does the green paper suggest support for fast-growth firms. On the other hand, the comprehensiveness suggests support be available to all firms including older firms and is not aimed merely to increase the proportion of start-ups. The Government does buy into the arguments put forward from Birch (1979) to Reynolds, Hay and Camp (1999) that entrepreneurship matters. From a theoretical view one might suggest that the

new Labour government has “gone Austrian”, supporting the views of Schumpeter (1948) and Casson (1990).

The SBS's business support side mainly applies to England. Scotland, Wales and the North of Ireland have different arrangements and a Parliament and assemblies respectively. In Scotland, Scottish Enterprise and the Highlands and Islands Enterprise have their own support delivery networks. The Business Connect network works in Wales. Northern Ireland boasts the Local Enterprise Development Unit (LEDU). A major review of the Northern Irish development scene was published called Strategy 2010. Thus the SBS' operational side will only operate in England.

The consultation paper recognises Business Link's clutter reducing role (Hutchinson, Foley and Oztel , 1996; Bryson Churchward and Daniels, 1997). The government argues that the service must improve, however. *But improving the signposting of programmes does not answer the criticism that support programmes are fragmented, of variable quality and difficult for small business to access'* (1999, sec 5.3, p18). The consultation paper proposes that the Chief Executive take an early view regarding small business support scheme's effectiveness and coherence. Changes to improve these schemes are a key task for the SBS.

The Chief Executive's task is to assess business support while: putting small businesses' needs first, looking to the future, linking to social policies, working in partnership outside Government, establishing a single Gateway, providing new support for micro-business, and developing small-scale equity finance. Given these tasks what can this research tell the new Chief Executive about business support? The next section attempts to reply.

The first message welcomes the emphasis put on access for all SMEs to Business Link services. The change recognises that Business Links have found it difficult to target growth firms with any degree of confidence.

Indeed this is the nub of the problem. The success of policy towards small business depends to a great extent on those who deliver it. Policy is not top-down. Policy fails when the policy-makers ignore the difficulty agencies have to implement policy. Thus, in the case of targeted policies Business links have simply failed to implement the policy as set out. Similarly councils find it difficult to evaluate local economic policies intended to change their area's image (German and Worthington, 1998). Agencies including TECs, Business links and local authorities seem to simply ignore difficult policies such as policies to foster inter-firm working.

Effective policies have to either be very proscriptive, or be simple enough to implement (Bowen, 1982). What is clear from this research is that the PBA service wants to implement a policy where they provide comprehensive coverage to the gamut of small firms, with a role that reduces death rates rather than increase growth. PBAs are survivalists (Ritchie, 1991). They have direct involvement with the owner-managers of small and medium sized businesses; moreover, the policy required this of them. PBAs were recruited from the ranks of those who have run their own business (Storey, 1993; Agar, 1994). The consultation paper has in a sense made explicit what this research found. PBAs offer risk-averse advice to companies that have some difficulty, that might wish to grow but are not rapid growth firms.

The research supports the distinction made by the consultation paper between fast growth and other businesses. The consultation paper suggests that fast growth businesses will welcome smaller equity finance in the Regional Venture Capital Funds. Many arguments surround supposed funding gap controversies where often venture capitalists argue that the funds are available to the right proposition. Business angels make the same claim (Stevenson and Coveney, 1996), as do researchers for debt finance (Cressy, 1996). It has never been fully explained to this researcher exactly why rapidly growing businesses that successfully negotiated the hurdles of mobilizing resources, deploying resources, and growth reversals needed advice from a local Business Link. The

new policy seems to lay that particular ghost to rest. Fast growth firms might need equity to start near to their minimum efficient scale (Audretsch, 1995) and certainly the existence of outside equity is a strong signal of capability for bankers (Fletcher, 1996) and is associated with growth (reported in Storey, 1994). Growing firms are different.

The research reported here suggests that growing firms are not targeted by the PBA service. This appears to contradict findings from Lean, Down and Sadler-Smith (1999); yet their findings suggested that most growth firms were identified after the PBA met the client. Thus, growth firms were firms that expressed a desire to grow; whereas for Storey growth firms are those that make a substantial contribution to employment - the flyers. Where the service scores is by signposting bespoke tailored help for small businesses. The help it suggests is jointly targeted on the needs of that particular business. And, as interviewees pointed out :

If you look at two hundred clients you'd have a job to say that any two of those were virtually the same. Again on the whole you are dealing with individuals. There's as many different types of business and the way businesses are run as there are individuals really.

The PBA service panders to the individuality of the SME owner-manager. Indeed SME owners are individual. The owners-managers encounter different markets. Each firm has different technologies. And, firms have different costs, which may result from different routines (Teece and Pisano, 1994). Thus, firms face bespoke obstacles to success.

The question then becomes is there ways to target an expensive, yet welcome, service on those firms where the advisor service would produce most benefits for the economy? The research finds more evidence of PBA's reluctance to target firms, as have other studies (Agar, 1994; Bryson, Churchward and Daniels, 1997). The study did not find technology counsellors attempting to

market the firm's products, although one did talk about raising prices, and another talked about stock levels. Perhaps then, the problem is one of name. To call someone a business advisor and suggest that they target growth firms may provoke resistance but if one called an advisor an export advisor would they be comfortable only advising companies which exported, or expressed a desire to export?

A targeting policy on the basis of exporting firms would make sense economically. Regional development theories such as cumulative causation demonstrate the key role played by exporters in open economies (Thirlwall, 1989). And within the single market area of the European Union, regions are very open economies. Moreover, the economic success of a country depends on a few internationally competitive sectors. Japan's post-war success contrasted with Britain in the same period despite similar overall productivity: *'it was not Japan that was so stunningly competitive, but only a handful of industries within Japan, and, more to the point, only a handful of companies led by strong individuals within those industries'* (Ohmae, 1996:65). Targeting exporters, who are more likely to be fast growing firms, matches policies to boost regional competitiveness.

Moreover, for the internationally competitive small firm productivity is crucial. Besides the emphasis that the policy would put on firms reaching new markets - which PBAs believe is important for growth - the policy would emphasise competitiveness based on unit labour costs. Why? Because the exporting companies are classically more productive companies within the domestic economy and international trade extends markets to enable greater specialisation and therefore economic efficiency (Smith, 1904: Riedel, 1988). Thus, classically more productive firms gain from exports. In order to enhance exporters policies might require productivity counsellors to enhance productivity in the most productive sector. Again, like Storey's arguments policies target help at the more successful firms. It helps those who have already helped themselves. Targeting policies reward success; and ignore failure. Thus, policies are not intended to help what many have suggested is Britain's

long tail of under-performing firms (see Commission on Public Policy and British Business, 1997) because as Japan's post-war success shows; the long tail does not matter. Targeting exporters might raise the profile of productivity counsellors, such as the Centre for Competitive Manufacturing in Dudley who argued that they could increase productivity by 30-40 % in many cases!

The emphasis on internal improvements also accords with the routines found within the resource-based theories of firm competitiveness. Thus the policy accords with theories of economic development and firm competitiveness. Finally, such a policy will emphasise the markets for products and innovation. Research in the West Midlands reveals the link between introducing new products and export performance (Mole and Worrall, 1997). The PBAs questionnaire responses indicate that the ability to exploit new opportunities, find new markets, and innovate all promote firm growth. Asking PBAs to target successful firms with a remit to develop exporters might enable them to take the risks involved in advice to expand the markets.

Although the targeting policy has often been neglected by Business Links in favour of a policy of help for all, targeting might not be needless. PBAs might target exporters. First you would have to change their titles to export business advisor (EBA) which might relieve them of any guilt towards non-exporting companies. The policy would accord with economic development theories and Japan's post-war experience. It would enable advisors to support productivity improvements and improve routines, as suggested by the resource-based theories of the firm. The policy could also enable advisors to help develop new opportunities within the firm in an outward manner - which critics argue the resource-based theories ignore (Porter, 1991). The advisors might come to grips with evidence that successful firms have strict controls, yet let their employees pursue opportunities (Hughes, 1998). As such the policy might promote theories that help us to understand what appears as a split-personality in successful firms.

6.6 Limitations

Firstly, the intent here has been to examine the model and methods used by the practitioners of business advice. Though we can compare these models to the findings of the more quantitatively orientated data, the question of whether the model is an accurate reflection of the factors important for the propagation of good business practice is moot. The other limitation is that the study has not considered a series of cases of actual business advice. Indeed, it would be nice to have taken a number of reports from PBAs and subjected these to a discourse analysis, to further document the use of error messages and the model of congruency in good management. Moreover, the advisors interviewed ranged from start-up counsellors, through to bank managers as well as accountants - a heterogenous group

Though the heuristic model has been derived the other part of the relationship between the business advisors is another area that has been left to one side. The research has not examined the process from the point of view of the small businesses whom are being advised. In particular, there is some question of whether sector specific advice is deemed more important by the clients of PBAs than the low significance given to it by the advisors. Anecdotal conversations have shown that the quality of advice given by some business advisors is not deemed to be high. It would be interesting to take the model of heuristic good management to the owners of SMEs for their reaction. Do the owners recognise the models and if so do they concur with the view of good management implied by the heuristic approach here. Indeed one might expect that the experiences gained by owner-managers would inform their heuristics but that these may be much more sector-specific than the business advisors. A comparison with the SME would enable the model to be generalised. At the present time though there is support for the model by business advisors the use of, or recognition of, this heuristic model by owner-managers is not known. Finally, the control feedback model has been validated indirectly, the research did not go to advisors suggesting this as a model.

6.7 Implications for further research

The further research from this could be to look at extending the generalisability of the good management model. First, does it apply to the owner-managers of SMEs? Despite the fact that the model derived from interviews with bank managers and accountants do they also recognise the model. Consequently, the extent to which the research model is generalisable outside of the Business Link advisor context is not known. Thus research to generalise the model apart from the Business link context is one way forward.

A second way forward is to apply the methodology of heuristic modelling to the views of owner-managers and other business advisors and compare these results with those presented here. Again the idea to generalise these results to different business advisors and business practitioners. Thus research could generalise results in two ways.

Another tack is to confirm these results with the existing participants, e.g. Business Advisors from Business Link. A discourse analysis applied to the reports generated by PBAs could fruitfully (dis)confirm the model. The error signals approach might be confirmed through this.

A further question is to evaluate the heuristic model of good management. The intent underlying the model for PBAs is to pilot a firm through the choppy waters of rapid growth. There is evidence that enterprise agencies affect death rates. Keeble et al (1993) say:

'the analyses do show that growth in numbers of small manufacturing businesses, and reduced death rates of businesses generally, are both significantly associated spatially with the activities of local enterprise agencies' (1993:114).

Enterprise agencies' significant role has been to prolong small firm life expectancy. Contrary to the stated remit of Business Link this is precisely what

the model of good management and the views of PBAs towards their clients are intended to produce. Population studies of firms might pick this up, after all the greatest increases in human populations have come as a result of firstly, reduced death rates at the same time as the birth rates have remained the same. Given that PBAs act to reduce death rates rather than increase growth rates, the fairest way to test the value of the heuristic model would be to compare PBA-advised firms with a matched set of unadvised firms. Further than that, there may be a way to test the agreement of the PBA with the heuristic model of good management by asking them to agree with the statements regarding good management. Those agreeing with the statements might be deemed to be using the model of good management, consciously or not, after all a molecule does not have to do maths to be described by a mathematical formula! Thus we might find three groups of firms to compare: those using PBA advice; those using heuristic modelled PBA-advice; and those using no advice. This would get around the problem that those firms that seek advice are more open, forward-looking and that any difference in performance captures this attribute of the firm's management, rather than the effect of any advice. Thus an evaluation of the heuristic model may be taken against those not using it, however, since our responses favour overwhelmingly those consistent with this heuristic model it might be difficult to find any not using some version of a heuristic model. A second method maybe to use a temporal analysis, but here the independent variable would have to be something associated with growth, like employment, where a dummy variable might be set at one when the advice is sought. The significance, or lack of it would then indicate the effect of business advice, on the same firm. Of course, it may be that firms only seek advice when they have a problem and so this might muddy the waters. The heuristic model of business advice thus can be used to evaluate business advice. The heuristic model in turn shows that the PBA's role is not always what those who designed the programme might believe it to be!

The TECs, Business Links masters, are to be abolished. A reappraisal of the role of business support is under way. New regional institutions responsible for economic

development have arrived. Understandably, the UK Government desires an efficient service to support small businesses. Change in the institutions involved in business support means that this research contributes to the debate surrounding Business Link and business support in a timely way. Present research projects aim to evaluate the contribution of the PBA service. Yet there may be a danger that the reports evaluate against the criteria set by policy, rather than more practical criteria derived from the PBA's experience.

The research demonstrates that Business Links operate a quasi-targeted approach, aimed to improve their client's longevity as much as growth. Government recognises SMEs vital economic contribution to the economy is unevenly spread and targeted policy towards those fast growing firms. In practice, policy is more likely to help firms to survive rather than grow, however, because PBAs react to events and their experience. Thus, PBAs implement a quasi-targeted policy aimed at firms with five employees or over, aimed to reinforce their internal management to strengthen the firm's management. The policy is not that suggested by Storey and Smallbone but it is a policy that takes account of small business turbulence.

Appendix I

INTERVIEW PROMPTS

I'm doing a study into business advice and professional business advisors. And there's two parts to it really and the first part we're looking at what professional business advisors see as important for looking at small firms. But instead of going from, initially, the theory; and then saying, you know this is what people have found out, um, in academic studies we'd rather go from this is what people are actually doing.

So can I ask you how long you've been in the position of advising small firms?

So if you look at how you assess a company what, how do you go about doing that?

Do you visit premises?

Are you interested in the personality of any of the owners?

What about innovation do you, think, see innovation as important for existing businesses?

Do you look at the formality of the firm's processes? Do you look at whether firms are having structured business meetings hu-uh with minutes and that sort of thing?

What about business planning?

Are there organisational issues, then what some people might call culture?
Issues about perhaps the layers of management

Is marketing important for them

Is technology important?

Do you think companies need to know their strengths and weaknesses?

If you could advise a fast growing firm, and if you had a magic wand and could say right okay well if this is what I would consider makes for a fast growing firm what would you advise? Fast growing in terms of turnover.

In the academic world, there seems to be two ways to look at businesses, particularly say small businesses. On the one hand people talk about entrepreneurship. So you can be a professor of entrepreneurship and you have big names like Schumpeter. I was going to say Schumacher then for a minute. And Hayek and people like that on the one hand. And on the other hand you have people who stress strategy. They tend to tend to come from the big firm people like Porter or Mintzberg. And they keep coming from different sides like a pincer movement really. And some people would say that if you've got an individual who's entrepreneurial knows what they're doing then they're likely to be successful. So, the individual owner-manager is the key person. And other people will say you know these strategies are associated with success, whether you export, whether you get new markets

Do you categorise firms when you go and see them?

I worked on a fork-lift truck and people used to walk around, it was a warehouse rather than a factory, and the supervisor always used to come up to me before. You knew when people were walking round and say "quick do a bit of a tidy-up" and that sort of thing. Do you think that makes any difference? Do you look for things like how tidy a place is?

And when you look round a factory what are the things you are looking for?

I was at a meeting in Stafford and I heard a manager of a small company say oh we make. I can't remember what he makes and we've been relatively stable. And then two years ago something happened and now we're growing really

quickly How rare is a story like that? Do you quite often, often or rarely find a company that progress very slowly and then suddenly something happens and they sort of take-off?

Are there any other issues that you think I should have discussed?

Appendix II

QUESTIONNAIRE

How do small business advisors evaluate small firms?

Report of Research carried out by Kevin Mole at the University of Wolverhampton.

Professional business advisors (PBAs) operate in uncertain conditions. Asked to make judgements in uncertain conditions, it is generally believed that people use a small number of heuristic principles to reduce complexity.

These heuristics are simple, often unspoken "rules of thumb". Practitioners, learning on the job, supplement their existing knowledge, and create practical rules to guide them. With this in mind, the study has attempted to identify important "PBA heuristics" following interviews with 30 business advisors and an analysis of responses to suitably open questions.

The research so far suggests that:

1. Advisors are concerned with the degree to which the business is "under control" and tend to use a number of indicators such as tidiness to infer good management of a firm.
2. An implicit model suggested for advisors is as a circular feedback model consisting of:
 - (a) owner/manager objectives,
 - (b) strategies to achieve these objectives (including growth) and,
 - (c) control (including control of profitability).
3. Advisors seek evidence that objectives can be identified and that strategies are in place to meet these objectives. Objectives and strategies "fit".
4. Further, advisors seek to find that an attempt is being made to control the relationship between objectives and strategies, that is that some tuning or "goal seeking" is taking place.

The purpose of the brief questionnaire below is to present some of the conclusions of the research so far and gather opinions, responses and feedback. A five point scale is used in much of the questionnaire. For example, in response to question seven, if you think the organisation prescribes a little of your interview tick box 2. If you thought it was not prescribed at all tick box 1. If you thought it was very prescribed tick box 5.

7. How far does your organisation prescribe the way you interview your small business clients?

Not at all	1	<input type="checkbox"/>	2	<input type="checkbox"/>	3	<input checked="" type="checkbox"/>	4	<input type="checkbox"/>	5	<input type="checkbox"/>	Very much
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About You

1. What is your current job title?

2. How long have you been advising small firms? _____ years

3. Have you 'managed/worked in' a small firm (under 100 employees) in your business career?

Yes/No (please delete as appropriate)

3a. If you answered yes to question 3; in what capacity? Please tick all that apply.

1.Managing director	<input type="checkbox"/>
2.Finance director	<input type="checkbox"/>
3.Sales/marketing director	<input type="checkbox"/>
4.Other director	<input type="checkbox"/>
5.Business planning	<input type="checkbox"/>
6.Manager	<input type="checkbox"/>
7.Supervisor	<input type="checkbox"/>
8.None of the above	<input type="checkbox"/>

4. What educational qualifications do you have? (please tick all that apply)

1. None of these	<input type="checkbox"/>
2. 'O' levels	<input type="checkbox"/>
3. 'A' levels	<input type="checkbox"/>
4. Degree	<input type="checkbox"/>
5. Professional Qualification	<input type="checkbox"/>
6. Masters degree or above	<input type="checkbox"/>

4a. If you ticked the professional qualification is your qualification from one of these organisations? Please tick one

1.ACCA/FCA	<input type="checkbox"/>
2.Other accounting such as CIMA	<input type="checkbox"/>
3.Institute of Bankers	<input type="checkbox"/>
4.Chartered Engineer	<input type="checkbox"/>
5.Institute of Marketing	<input type="checkbox"/>
6.None of the above	<input type="checkbox"/>

5. Can you list below brief details of your direct experience in the small firms sector?

Your organisation

6. Which organisation do you currently work for?

7. How far does your organisation prescribe the way you interview your small business clients?

Not at all	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	Very much
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8. What training did you receive on becoming a business advisor?

9. How effective was this training?

Not at all	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	Very effective
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Your Job

We wish to elicit your ideas about the nature of the job of a business advisor and obtain your opinions about the process you go through when advising small firms.

10. When advising small firms do you find the process...Please tick one response.

	very	somewhat	neither	somewhat	very	
simple	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	complex
intuitive	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	methodical
subjective	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	objective
sector specific	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	sector not important
uses academic knowledge	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	uses experience
can be scored	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	cannot be scored
has a standard method	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	has no standard method
informal	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	formal
routine	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	everyone different
needs face-to-face contact	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	needs no face-to-face contact

Your views about small business

We are interested in your views about, and experience of, small business success and failure. Please tick the response that is nearest to your views for the following questions. You should aim to answer the questions quickly and without too much reflection.

11. Good businesses have formal business plans.

Strongly agree	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	Strongly disagree
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12. Successful small business managers know the strengths and weaknesses of their competitors.

Strongly agree	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	Strongly disagree
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13. Even poorly organised firms often prosper.

Strongly agree	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	Strongly disagree
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14. It is unnecessary to innovate to be successful as a small firm.

Strongly agree	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	Strongly disagree
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15. A significant number of small businesses fail because management lack financial competence.

Strongly agree	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	Strongly disagree
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16. Success in small business is largely a case of being in the right place at the right time.

Strongly agree	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	Strongly disagree
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17. Businesses with clear financial control systems are more likely to survive.

Strongly agree	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	Strongly disagree
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18. Good management is good management; no matter what sector the company is in.

Strongly agree	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	Strongly disagree
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19. Setting goals, planning and evaluating progress is the hallmark of a well-managed firm.

Strongly agree	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	Strongly disagree
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20. Agreement between the firms' objectives and its operations indicate good management.

Strongly agree	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	Strongly disagree
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21. Businesses control managers; managers do not control businesses.

Strongly agree	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	Strongly disagree
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22. Success depends more upon the sector that the firm is in; rather than the quality of the management.

Strongly agree	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	Strongly disagree
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23. Finance is more readily available for well-managed firms.

Strongly agree	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	Strongly disagree
----------------	----------------------------	----------------------------	----------------------------	----------------------------	----------------------------	-------------------

24. It is unnecessary to innovate to be successful as a small firm unless the firm is in a high tech sector.

Strongly agree	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	Strongly disagree
----------------	----------------------------	----------------------------	----------------------------	----------------------------	----------------------------	-------------------

25. Successful companies appear well organised and tidy.

Strongly agree	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	Strongly disagree
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26. You can tell a lot about a firm by just walking round.

Strongly agree	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	Strongly disagree
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27. Its all down to luck.

Strongly agree	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	Strongly disagree
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Causes of Business Failure

28. From the list of factors below and your experiences please indicate to what extent they are important causes of business failure.

	Very Unlikely to cause failure	Unlikely to cause failure	neither likely nor unlikely	Likely to cause failure	Very likely to cause failure
Lack of demand	1□	2□	3□	4□	5□
Poor debtor control/bad debts	1□	2□	3□	4□	5□
Lack of management capability	1□	2□	3□	4□	5□
Low profit margins	1□	2□	3□	4□	5□
Poor management accounting	1□	2□	3□	4□	5□
Inadequate working capital	1□	2□	3□	4□	5□
Unexpected changes in demand	1□	2□	3□	4□	5□
Changes in technology	1□	2□	3□	4□	5□
Poor cost control	1□	2□	3□	4□	5□
Over-trading	1□	2□	3□	4□	5□
Supply chain "squeezes"	1□	2□	3□	4□	5□
Staying too long in mature markets	1□	2□	3□	4□	5□
Lack of innovation	1□	2□	3□	4□	5□
Lack of managerial skills	1□	2□	3□	4□	5□
Inadequate market research	1□	2□	3□	4□	5□
Lack of clear business objectives	1□	2□	3□	4□	5□

Factors for Business Growth

29. From the list of factors below and your experiences please indicate to what extent they are important causes of business growth.

	Very unlikely to produce growth	Unlikely to produce growth	neither likely nor unlikely	Likely to produce growth	Very likely to produce growth
Increase in customer demand for the product or services	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
Ability to develop new markets	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
Good debtor control	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
High profit margins	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
Good market research	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
Adequate working capital	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
Ability to bring new products to market	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
Ability to spot new opportunities	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
Ability to anticipate demand changes	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
Good management skills	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
Good knowledge of cost structures	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
Ability to absorb cost increases	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
Ability to manage the margin	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
Ability to improve productivity	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
Long-term business planning	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
Clear business objectives	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>

Your views about management functions

Management tasks tend to be associated with different functions in the management of a business. In small businesses, the same person may undertake these activities. Please map the following activities to the three functions.

30. Please tick the area to which you think the following management activities apply.

Activity	Function		
	leadership	strategy	control
managing stock levels	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
co-ordinating	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
directing purpose	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
researching the market	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
managing cash	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
raising finance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
developing vision	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
setting clear targets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
setting prices	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
knowledge of competition	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
changing business direction	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
chasing debts	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
motivating staff	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
producing management accounts	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Thank you for your help with this research. Please return the questionnaire in the envelope provided. Further comments and discussion are welcome. Write to Kevin Mole, Management Research Centre, University of Wolverhampton, Shropshire Campus, Priorslee, Telford TF2 9NT. (E-mail: EX1166@wlv.ac.uk)

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